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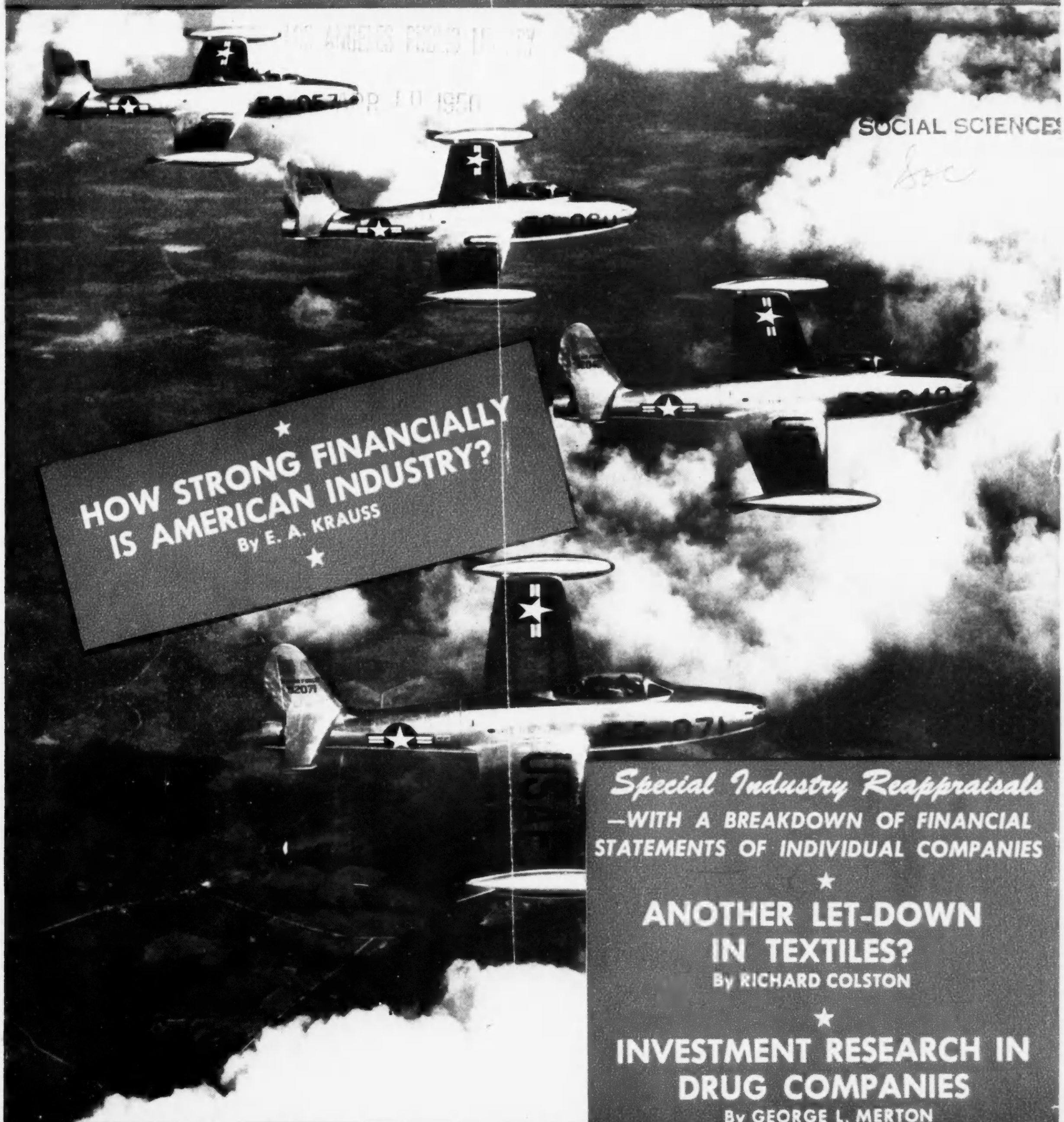

★ HOW STRONG FINANCIALLY IS AMERICAN INDUSTRY? ★

By E. A. KRAUSS

Special Industry Reappraisals

—WITH A BREAKDOWN OF FINANCIAL STATEMENTS OF INDIVIDUAL COMPANIES

★

ANOTHER LET-DOWN IN TEXTILES?

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INVESTMENT RESEARCH IN DRUG COMPANIES

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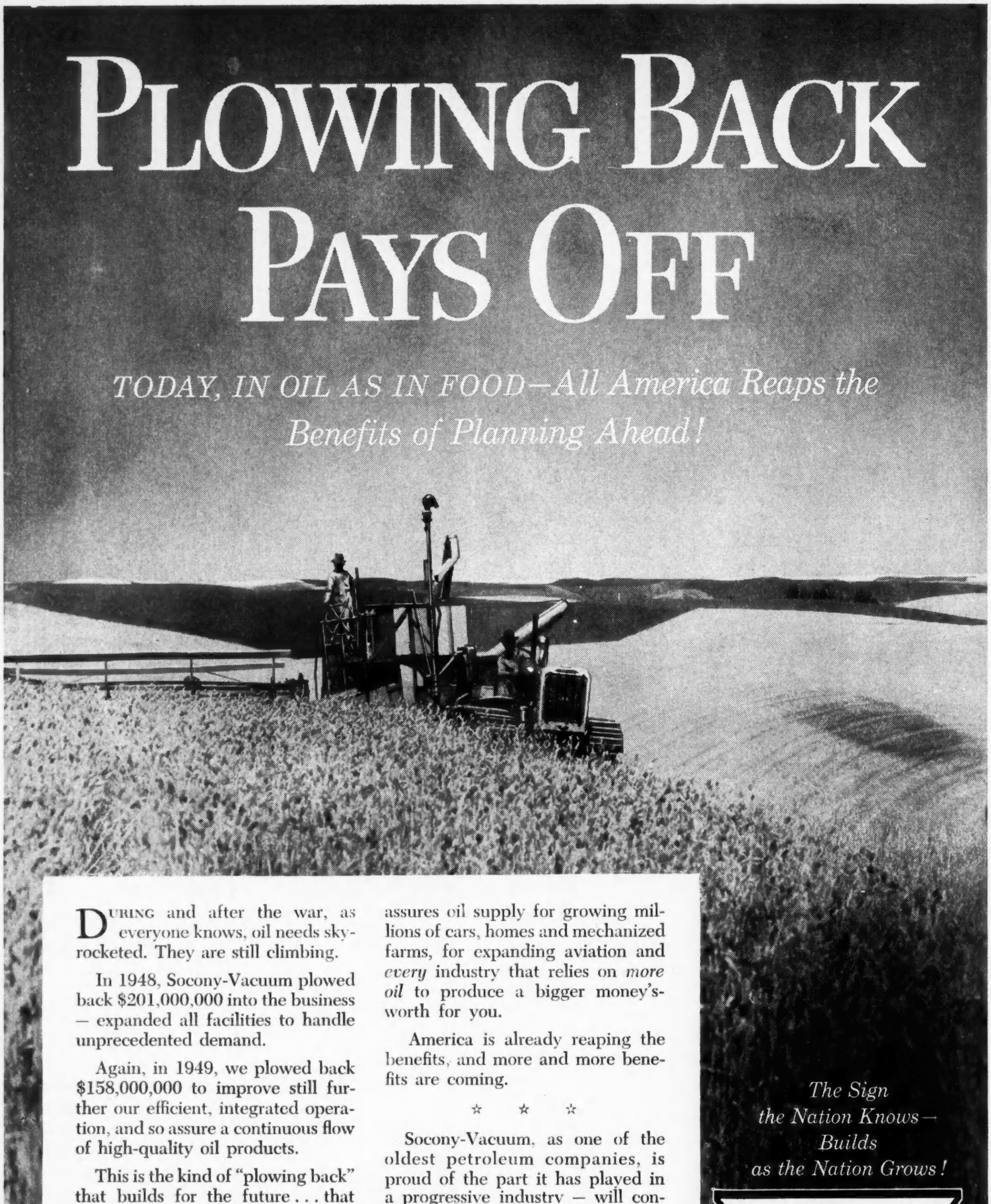
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THE MAGAZINE OF WALL STREET
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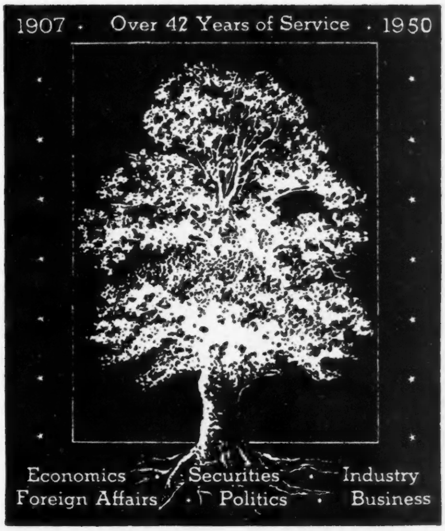
THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Editor-Publisher* E. A. Krauss, *Managing Editor* Arthur G. Gaines, *Associate Editor*



The Trend of Events

ECA DEBATE . . . For the third time, Congress is debating the American Government's aid program to bring economic health to Western Europe. In two years, the program has undergone profound changes. It started chiefly as a relief measure. The U. S. has sent to Western Europe huge quantities of food and raw materials to revive production. That goal has been accomplished. Industrial production in Europe has risen to 20% above prewar levels, and agricultural output has almost reached the prewar rate. Now the emphasis has shifted to economic reconstruction to enable the ECA counties to compete more efficiently in world markets and narrow their trade deficit with the dollar area.

To accomplish this, the Administration has asked Congress for $2.95 billion in new funds, but congressional sentiment is strong for economy. Not only do both parties want to keep foreign aid costs at a minimum because they feel that with our own budget out of balance, this is no time to be pouring out large sums to Europe, but an attempt has been made, via a food substitute provision, to transform the ECA in part at least into an agricultural surplus disposal agency. This of course would wholly defeat the purposes of the new phase of ECA planning.

A hard fight loomed ahead. The proverbial popularity of governmental economy in a congressional election year spelled serious trouble but the need for retrenchment was being used to mask other motives, including hostility toward the State Department, Anglophobia, disappointment over Europe's slow progress toward economic integration and probably also somewhat exaggerated fears of the impact on domestic industry of competitive imports from Europe. Fortunately, while the bill had a stormy time in the House of Representatives, it emerged virtually unscathed. Only a quarter billion dollars was lopped off the sum asked by the Administration.

What effect an ultimate reduction will have on the European Recovery Program is of course conjectural, depending mainly on its size. The proposed European Payments Union is a keystone in the economic integration program and at the same time a point of major contention between British and American aims. Hence the conclusion is unavoidable that since Europe's requirements already have been cut to a minimum, any further reduction may be at the expense of the Payments Union and economic integration. Since it is believed that without integration, Western Europe cannot sustain the recovery already achieved, this would be a highly regrettable consequence.

TOWARDS GOVERNMENT PRICE FIXING? . . . In a bitterly contested report, Democratic members of the Senate-House Economic Committee have called for thirty-day notice before any future steel price increase so that Congress "can have a look at it." Republican members lashed back in a minority report with the assertion that this and other recommendations of the majority "look strongly in the direction of Government price control"

We recommend to the attention of our readers the analytical discussion of business trends contained in our column "What's Ahead for Business?" This regular feature represents a valuable supplement to Mr. A. T. Miller's stock market analysis of importance to investors as well as to business men. To keep informed of the forces that may shape tomorrow's market, don't miss it!

for steel. Indeed it does. If any Government agency in the future were to pass upon price increases, it would certainly mean the end of a free market economy, and therefore of dynamic free enterprise as we have known it and under which the country has become great and prosperous. For naturally, any action by a steel company contrary to the recommendations of a Federal Board would bring an immediate demand for price-fixing powers.

Because the latest steel price increases came uniformly and at a time when profits of the two largest steel makers were at an all-time high, the majority report strongly suggested not only that the price boosts were not supported by cost factors but also that there is lack of competition in the industry. Here again, it is easy to disagree. Price boosts usually are carefully considered actions based on cost considerations and competitive conditions, and the steel industry has always been quite competitive. If, however, there is any suspicion of monopoly, the case certainly should be presented to the Justice Department for prosecution under the Sherman anti-trust law.

Quite apart from this, it is clear that the arguments over steel are developing into a broader issue—that of the Government's attitude toward the powers of management in basic industries. And from there it is only one step towards a pattern for industry control via close governmental check-ups on industry action. This is the most disturbing aspect of the Committee's majority recommendations, which among other things suggest a "public utility "status for steel in the event that the industry is found to be "uniquely affected" with a public interest. Since almost any major industry is so affected, the result would be a foregone conclusion.

For the time being, the need for further study is the only point of agreement between the majority and minority supporters and Congress itself will have to decide how to act on the report. The latter at least shows what the economic planners want. It is up to Congress to decide whether their ideas are sound or not.

GOLD AND SILVER . . . The nation's gold stock in a recent three-week period suffered a loss of some $100 million, largest loss by far for any comparable span in 1950. The development is all the more striking because in the four previous weeks, the gold stock was unchanged. Meanwhile our gold hoard at Fort Knox has gone down to $24.24 billion—lowest figure since December 1948. That means that all the gains in gold accrued to the United States in the first nine months of the last year have now been wiped out. The outflow since September 21, just after European currency devaluation, to-date amounts to $445 million.

There is of course nothing to be worried about this development; rather it should be welcomed. A large part of the outflow represents withdrawals by foreign Governments to bolster their newly devalued currencies. Some of it, must be admitted, was also due to fears current some time ago that the dollar might follow on the devaluation road. That fear has long since been dispelled.

But some of the gold withdrawals resulted from reappearance of foreign credit balances in trade with the United States, a strange phenomenon after a prolonged absence and due to a multitude of causes, whereamong stepped-up exports to the United States with the help of devalued currencies and a tightening of restrictions on United States imports. There is also reason to assume that there has been some repatriation of privately owned gold.

The latest trend marks the continuation of the improvement registered last year in the overall monetary reserve position of foreign countries. At the close of 1949, total foreign gold reserves and short term dollar balances were estimated at $15.2 billion compared with $14.9 billion at the beginning of the year. Of the former amount, gold reserves came to $9.28 billion and dollar balances to $5.89 billion. Largest gold reserves abroad are held by Switzerland ($1.5 billion), followed by Great Britian ($1.35 billion) and Belgium-Luxembourg (723 million). France's official holdings are given as $545 million, but gold hoarded by the population has at one time been estimated as high as $2 billion.

As to silver, the price disparity between the foreign price and our official domestic purchase price has been widening of late. The price of the metal abroad is down to 71¾ cents an ounce as distinguished from domestically mined metal which the Treasury is required to purchase at 90.5 cents an ounce. And our silver hoard at Westpoint remains huge. Paradoxically, the price drop in the foreign quotation was due to increased shipments from abroad and somewhat stagnant industrial demand in this country, factors about which our protected silver miners have of course nothing to worry about. The Government takes care of them.

THE CHRYSLER STALEMATE . . . As the Chrysler strike enters its ninth week, hopes for an early settlement appear to have grown dim despite earlier suggestions that a break may be near. The strategy of the United Auto Workers is somewhat difficult to understand. Not only has the Chrysler management gone far towards meeting the union's demands, but such a prolonged stoppage must be quite costly to union members as well as to the company.

Before negotiations broke down, Chrysler had undertaken to meet pension demands on a somewhat more favorable basis than had been achieved by the Ford workers. But the union insisted that a simple commitment on the company's part was not enough. It wanted a contribution of so many cents per hour made into the pension fund. On that issue the strike began. Chrysler subsequently made a substantial concession, offering to set aside a fund of $30 million, and also agreed to joint administration with the union as regards eligibility and related matters. But the union was still not satisfied, and the strike continues. What does it want that it has not already gained in substance?

Apparently the union does not seem to be concerned with the feasibility or soundness of its claims but rather with making sure that the company pays out a sufficient sum to assure a victory at least equal to that of its rivals. Union leadership may feel that its prestige is at stake but this is meager comfort to the rank-and-file which loses weeks of income and can hardly see in this kind of bargaining any real preoccupation with its welfare. It is a slim excuse for a strike that has already imposed such penalties on all concerned and will create real hardships before long, unless quickly terminated.

As I See It!

BY ROBERT GUISE

TOTAL DIPLOMACY

We are given to understand that total diplomacy, soon to get under way, is to produce major and far-reaching shifts in the entire range and tempo of our foreign policy—a much greater effort in all fields in order to win our role as leader of the free world.

Doubtless such an effort is overdue; whether we are properly prepared for it is another question, particularly if we consider the shocking exchange of recriminations which has been going on in Washington.

At any rate, application of total diplomacy is to include (1) a new emphasis on explaining foreign policy at the home front, a sore necessity in view of past indecision and recent "revelations"; (2) a new willingness to apply the Truman doctrine on the Southeast Asia front; and (3) a more tangible approach to diplomatic conversations with Russia.

All three points are of foremost importance but the last mentioned is particularly intriguing. Clearly our approach in dealing with Soviet Russia must become a good deal more realistic than it ever was in the past. Mr. Acheson in his recent San Francisco speech stated that "we are always ready to discuss, to negotiate, to agree, but we are understandingly loath to play the role of international sucker." Yet in some respects, we continue to come close to just that. There are still points and areas where we seem to treat Russia with velvet gloves despite a painful lack of reciprocity on Russia's part. Why do we do it?

"WHAT DO WE DO NEXT, ZIG OR ZAG?"

Long in the Minneapolis Tribune

The House Committee on Un-American Activities has just proposed a "crackdown" on the embassies of communist-dominated countries which have been characterized as focal points of communist espionage and propaganda. We all know they are, and the idea of taking proper safeguards appears wholly sound.

Then, also, what about the Soviet embassy? We have often been wondering why Russian diplomatic representatives in this country should enjoy diplomatic freedom and the diplomatic amenities to an extent wholly unknown and unpracticed in Russia. Whereas our diplomats in Russia are virtual prisoners, severely restricted in their movements and cut off from all contact with theRussian people and Russian sources of information, Soviet representatives in this country are free to come and go, to travel around the country, to contact people, to see everything — without the slightest hindrance.

Why do we allow such disparity of treatment? It will hardly aid our cold war efforts. In Russian eyes it merely looks like weakness and appeasement, like unwillingness to play the game realistically. The Soviets are not likely to respect us for it.

Quite possibly our representatives in Russia would find their task, and their working and living conditions, less onerous if we were to insist on strict reciprocity of diplomatic treatment. Such a move should become part of the new policy of creating "situations of strength" — the only way to deal with the Soviet Union.

We need more "situations of strength" before any approach to Russia can be expected to bring results, and we cannot create such situations without focusing all our efforts on the winning of the cold war. In order to win, ours has to be a one-minded policy, just as Russia's is, rather than a policy swayed by Russian actions as in the past. This need becomes more apparent in the light of recent developments.

Russian response to Mr. Acheson's seven-point program was, as expected, completely negative. Instead there is every sign of a Russian cold war offensive throughout Western Europe scheduled for late Spring. When it comes, our total diplomacy will be put to a severe test. It will have to prove itself as more than a mere catch phrase, more than just arousing the country's awareness of the troubles with Russia and the dangers involved. To have any meaning, it will also have to evidence our willingness to stand pat against the Russians on our new policy.

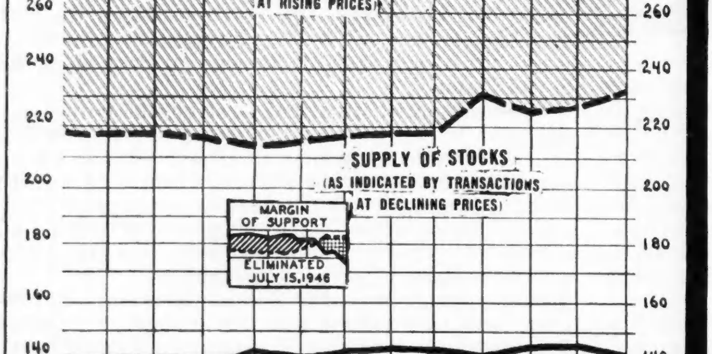
Market Reflects Growing Caution

The heaviest first-quarter stock trading volume in many years, with only a small and laborious further rise in the market, implies that a great deal of distribution has been going on, much as in the 1946 first quarter. Past results suggest that sellers around present levels probably are wiser than buyers. There is no change in our conservative policy.

By A. T. MILLER

During the fortnight since our last previous discussion was written, the market first struggled upward a little further, taking the daily industrial average to a new 1949-1950 high—without either the rail or the public utility averages following suit—and then reacted. For the two-week period, the result was a moderate net decline in all three of these averages. For a short time last week the market "looked bad" under fairly active selling, but that has been so on various previous occasions in recent months without more than a minor corrective reaction developing. So far at least, the pattern is not significantly different. After a sizable dip March 29-30, the list levelled out. If there is considerable caution on the part of would-be buyers, the same is so of would-be sellers. Actually the over-all balance between desire to buy and desire to sell is very close, as it has been for a good many months.

There is one shift which might be significant if it goes much further; and which, therefore, will bear watching. We refer to the action of utility stocks over the past fortnight or so. Since the last high was made in the Dow utility average at 43.74 on March 16, which duplicated exactly the 1946 bull-market top, there has been more profit-taking in these stocks than in a long time. The rise in this market from the 1949 low has been dominated, on the whole, by good-grade stocks offering an income return large enough and secure enough, under foreseeable conditions, to attract investment demand. The investment arguments for rising stock prices apply more generally to utilities, since the majority of the better known of them are primarily income stocks, than to any other group. Hence, the recently demonstrated unwillingness of investors to reach any higher for utilities might possibly have more than minor and passing significance for the general market.



Market at Tough Resistance Level

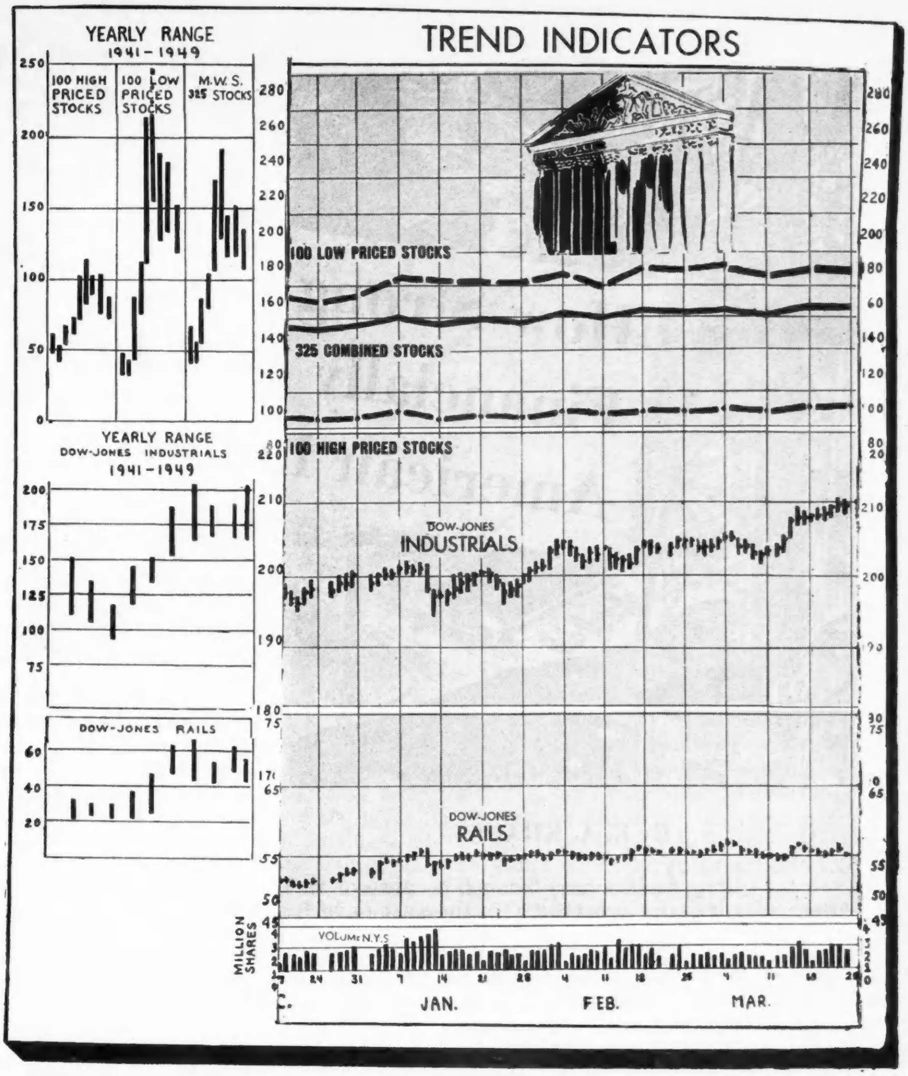
As noted above, supply of and demand for stocks has for some time been closely balanced. You might say that is always so, since the number of shares bought at any given time is also, of course, the number of shares sold. The difference is in willingness to buy or sell, as reflected in bid and offer tactics. Enthusiastic buyers buy "at the market"; cautious would-be buyers order with a limit price, often under the market. People thinking of selling, but not anxious, set a price above the market, whether in an order placed or as a mental resolution. The stronger becomes their belief that the market is about high enough, if not too high, the greater is their general tendency to place selling orders "at the market."

From this perspective the balance has been gradually shifting, resulting in a marked slowing of the rate of advance. Thus, in six and a half months up to the end of 1949 the Dow industrial average rose 23.8%; but the maximum further rise in the first three months of 1950 was about 5.2%, and the further net rise to this writing is only 3.1%. The comparable figures for the rail average are: 28.6% to the end of 1949, a maximum further rise of 7.3% so far this year, and a net rise from last December 31 to this

writing of 5.1%. The last recovery high in rails was seen March 4, or about a month ago.

Any way you look at it, the market is at a level above which any rise figures to be slow and very laborious, at least until and unless the indicated tough resistance levels are definitely surmounted; and in an area where a considerable sell-off, extending for at least a period of weeks, could develop at almost any time. Whether it can gnaw through the presumptively thick layer of offerings just overhead remains problematical.

It is a logical, but not provable, assumption that there is a great deal of stock for sale around present levels, and even more at levels only moderately higher. This is one of the few deductions that market charts can support with fair accuracy. Some people are, or will be, profit-takers because the Dow industrial average, which is their "market bible," is in historically high ground, only a minor percentage under the 1946 bull-market peak. These people are as varied as are the buyers. Similarly, some institutions are on the selling side, some on the buying side; although the latter have the greatest weight now. As to whether the sellers are smarter than the buyers, time alone can prove it one way or the other. This much can be said: on every previous occasion when the Dow industrial average has been in the vicinity of 200 or above it, the sellers have indubitably been on the right side. That was quickly proven in 1948, 1946 and 1937; it took quite a while longer in 1928-1929, but the final proof was overwhelming.



Of course, the Dow industrial average, as we have frequently pointed out, is not "the market." The weekly indexes of the Magazine of Wall Street, charted herewith, all remain within the upper portion of the broad trading range maintained ever since late 1946, and materially under their 1948 recovery highs. Measured against the latter, the index of 100 high-priced stocks is in the most advanced position, for the same general reasons that have put the better-grade issues within the Dow average higher; and the index of 100 low-priced stocks remains most backward. Its last rally high, made as far back as the week ended February 18, was over 12 points under the 1948 high. Aside from the special interest in television stocks, speculative confidence remains subdued.

It might be added that during the small and laborious rise of the first quarter of this year, the volume of transactions on the Big Board exceeded 117 million shares, which was the heaviest first-quarter volume in about 13 years. Heavy volume in a market which shows clear signs of fatigue can be a danger signel. Thus, volume in the first quarter of 1946 was 111.3 million shares, the average pace of the 1942-1946 bull market had slowed to a walk, and the final top was very near in points and percentage.

Guard Against Complacency

Over-all business activity seems likely to hold on a fairly even keel for at least some added months to come; not much above or below the present level, which is moderately under the postwar peak, reached in the late months of 1948. But the economy is still on stilts, some of which are shortened even as others are lengthened. Those being lowered include the net export-trade balance, and business outlays for new plant and equipment. Those up from a year ago, and mostly still rising, are Federal deficit spending; state and local public-works outlays; mortgage financing and consumer installment debt. Relative to consumer income, the latter is approaching levels thought high before the war. The over-all (*Please turn to page* 58)

How Strong . . . Financially Is . . . American Industry?

By E. A. KRAUSS

Inflationary booms, because of their allure of glittering prosperity, in the past have frequently proved highly unsettling to longer range business stability. In a sense this applies also to just plain boom periods without any inflationary attributes. The reason is that the temptation to indulge in financial excesses is difficult to resist. Quite often in such periods, to grasp the opportunities for quick and easy profits, corporations loaded themselves with debt, with high-priced inventories, and often enough indulged in speculative outside ventures they had no business to undertake.

When the bubble burst, such "sins" came home to roost with a vengeance, in terms of severe losses, even bankruptcies, with the investor all too often paying the price. The past is replete with experiences of this sort; many a management in the course of prolonged recuperative efforts has had ample time to ponder the folly of such actions.

Once again we have gone through a highly inflationary period, and through the greatest boom in our history. True enough, inflation has not yet given way to deflation, not much anyhow. Similarly, the boom has not yet been followed by depression but merely by an adjustment process with relatively moderate recessionary trends. Whether adjustment is completed and business ready to forge ahead on a new plateau of high economic activity, as some prefer to believe, is still a moot question. We do know, however, that business as a whole came through the adjustment to-date in extremely healthy fashion, reflecting the excellent manner in which corporations have managed their finances in the past decade, and particularly in postwar years.

A good case can be made for the assertion that this was an important contributing factor in smoothing the adjustment process, in avoiding unduly severe repercussions attendant upon falling demand and dropping prices. Things might have turned out differently, had there been a repetion of the financial excesses of the past. Instead, there generally prevailed policies of conservatism and financial prudence that not only helped minimize deflationary impacts but built great financial strength into the corporate structure with far-reaching consequences in the future. American corporations as a group have emerged financially strong and highly liquid, which should go far towards assuring stability after the postwar boom has run its course. A few data will emphasize this point.

In the four postwar years, American business has invested some $62 billion in new plants and equipment, quite apart from increasing other assets by another $11 billion, making a total asset gain of some $73 billion. There has been a considerable strengthening of reserves of every kind, and few if any real inventory excesses.

Just how soundly managements operated is illustrated by the fact that despite adjustment difficulties, corporations at the end of last September still held about $40 billion in cash and Government bonds, an impressive sign of liquidity when compared with current liabilities of some $57 billion. Cash assets, in fact, were more than three times the total of 1939 and 45% more than in 1942. Net working capital of $68 billion was the largest ever reported, almost twice as large as at the end of 1942. This of course is a composite picture that is bound to hide numerous variations; but this hardly detracts from its importance.

Moderate Debt Increase

No less significant is that despite the great asset expansion that has occurred, corporate long term debt amounts to only about $54 billion compared with $44 billion in 1939 and $42.6 billion at the end of 1942, an increase of somewhat less, or slightly more, than one quarter, respectively. This is indeed a conservative showing. Whereas net corporate debt since 1942 had risen 26%, net working capital was up 86%, cash assets 45%, corporate net income 80%, and corporate sales just about doubled. Not only is the debt load (up 15% since 1929) fantastically light but it is supported by almost three times the pre-tax earnings of 1929 and carries only about half the interest rate.

Similarly, during the past twenty years, while

cash assets in the hands of corporations have multiplied nearly four times and current assets more than doubled, current liabilities were only about half again as large.

Inventory positions, too, were maintained in a generally healthy shape. Last September they aggregated about $44.7 billion, a gain of about 64% over 1942 and mainly reflecting price inflation. They constituted about 36% of current assets, a conservative ratio, and only about 29% of sales which is far from excessive. There have been inventory losses of course, mostly unavoidable, but these were largely covered by reserves previously set up against such contingencies, or at worst taken in stride thanks to financial strength and liquidity. Relatively few instances have come to hand where inventory losses have resulted in permanent impairment of a corporation's financial position.

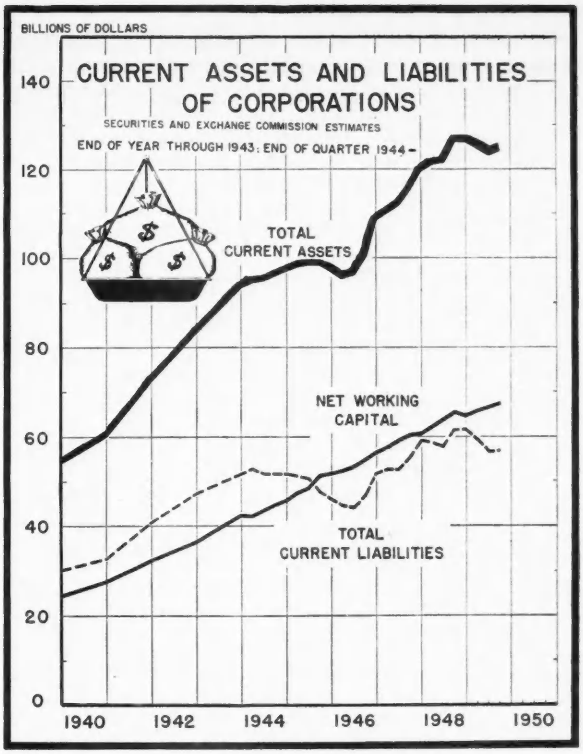
Postwar Financing

The small increase in long term corporate debt is of course the direct result of how corporations financed their postwar expansion. Altogether about two-thirds of capital needs were covered by retained earnings, and the remaining third by long term borrowing. To what extent this policy was dictated by choice rather than necessity is difficult to state. Market conditions, as we know, were not particularly conducive to equity financing but mere financial conservatism doubtless played a significant role.

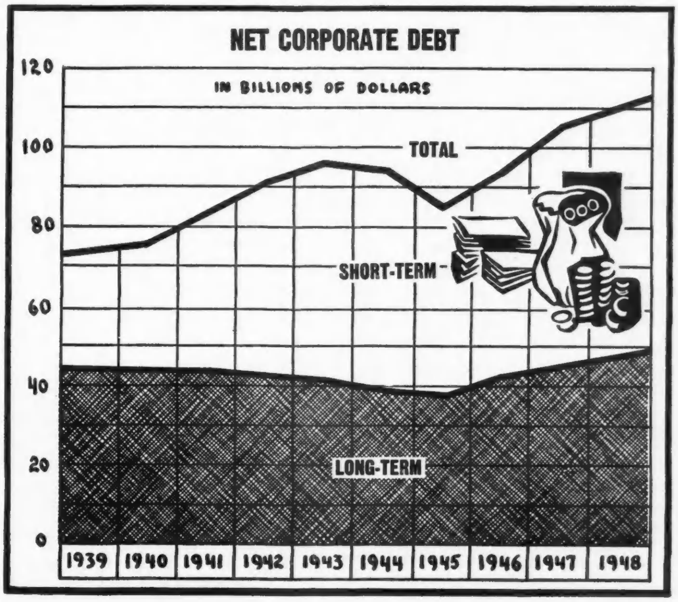
The shifting emphasis in corporate financing in the postwar period is clearly reflected in the trend of liquid asset holdings. Emerging from the war in an unusually liquid state as a result of the limited private capital investment outlets during the war years, corporations helped finance their heavy initial postwar capital requirements by drawing on their large accumulations of Government securities, liquidation of which in 1946 exceeded additions to cash by about $4.7 billion.

In 1947 and 1948 on the other hand, holdings of liquid assets underwent little change as retained earnings were extensively relied upon to finance capital expansion. Relatively, however, the liquidity position of corporations continued downward in these years as the volume of activity and prices continued to rise. By way of contrast, in 1949, corporations were in a position to add almost $3 billion to their liquid assets, an increase which occurred while sales and prices were falling moderately. As a result, there was a substantial gain in corporate liquidity last year.

In meeting their reduced financial requirements in 1949, corporations continued to rely primarily on such sources of funds as retained profits and depreciation allowances (see table). But since dividend payments were up slightly from 1948, the full impact of lower profit levels in 1949 was reflected in lower retained earnings which fell by about $5 billion from 1948. Taking into account the moderate increase in depreciation, the total of retained earnings and depreciation allowances last year came to $14 billion compared with $18 billion in 1948. Yet, internal financing was relatively more important last year than the year before.



Repayment of about $1.8 billion of outstanding bank loans last year marked a further step toward liquidity, reversing the steady upward trend of business borrowing from banks under way since the end of the war. Long term debt continued to expand, reflecting the still heavy fixed capital requirements. Despite the $16 billion debt since 1946, however, interest payments remain quite low in relation to corporate earnings, approximating 8% of corporate profits before taxes and interest payments in 1949, compared with 20% in 1940 and 30% in 1929. This is a remarkable improvement, reflecting of



course the low interest rates at which postwar long term debt was contracted.

The overall financial picture thus is one of soundness, characterized by great liquidity, a relatively light debt load and an even lighter interest burden, absence of a top-heavy inventory position, and a distinct trend towards reduction of short term debt, all the result of prudent and conservative management policies. The latter have frequently been criticized, particularly the retention and plowing back of substantial amounts of earnings at the expense of dividends. Doubtless there have been cases of excessive conservatism, instances where such criticism was fully justified. But by and large, it has helped keep debt loads modest and liquid assets high, a combination that should make for greater dividend stability than in the past, for maintenance of dividend payments even in periods of less favorable earnings. To that extent the stockholder will ultimately gain.

Capital Investment to Reduce Costs

Another constructive factor is seen in the character of capital expenditures made by many corporations, that is the great and growing emphasis on capital outlays that reduce unit costs, as against those that involve expansion of capacity or embarking upon new ventures. The latter of course can also be productive of earnings, thus benefit the stockholder. But outlays made with an eye primarily on cost reduction will contribute further to dividend stability, not only by cutting overhead and maintaining or widening profit margins, but by improving competitive positions and thereby aiding volume.

All these aims have been foremost in the minds of managements in formulating postwar plans, and still are. Even today, caution rather than the venturesome spirit of former prosperity periods dominates business decisions. It governs buying policies, dividend policies and future expansion plans, and such caution is well in order. Labor costs are high and their future trend difficult to appraise. Replacement costs are high and not likely to decline soon, hence the trend toward upping depreciation charges. Government policies are worrisome, and uncertainties in the business outlook cannot be denied. All of which helps explain why business, by and large, has been playing it safe, intent on keeping itself in a highly liquid position.

Though some stockholders may have reason to grumble over ultra-conservative dividends, they stand to benefit from the advantage of greater dividend stability all the more so where moderate disbursements make it easier to maintain current rates even in the face of declining profits. Quite frequently however in recent weeks, dividend rates have been raised in reflection of reduced capital needs and a strong financial position even though earnings may have been tending lower. Such experiences prove the validity of the premise that the stockholder will eventually benefit from prudent management policies. More dramatic proof of it is apt to come to hand in the event of any future, more severe recession.

***Sources and Uses of Corporate Funds* 1946-49[1]**

(Billions of dollars)

Item	1946	1947	1948	1949[2]
Uses:				
Plant and equipment	11.6	15.0	17.3	16.0
Inventories (book values)	11.2	8.9	6.3	—3.7
Receivables	4.8	5.7	2.3	—.7
From business	5.1	4.2	.8	—1.6
From consumers	1.7	1.7	1.4	.9
From government	—2.0	.2	.2	(3)
Cash and deposits	1.1	1.3	—.1	.9
U. S. Government securities	—5.8	—1.5	.1	1.9
Other current assets	—.7	—.1	(3)	—.2
Total	[4]22.2	29.3	25.9	14.2
Sources:				
Retained profits	7.7	11.4	12.5	7.8
Depreciation	4.2	4.9	5.5	6.2
Payables trade	4.0	2.6	.9	—1.6
Federal income tax liability	—1.6	2.7	.9	—2.3
Other current liabilities	1.8	.6	(3)	.3
Bank loans				
(excluding mortgage loans)	3.3	2.6	1.2	—1.8
Short-term	1.9	1.5	.5	—1.4
Long-term	1.4	1.2	.6	—.4
Mortgage loans	.6	.8	.7	.5
Net new issues	2.3	4.4	6.0	5.1
Stocks	1.3	1.3	1.2	1.3
Bonds	1.0	3.1	4.8	3.8
Total	[4]22.3	30.0	27.7	14.2
Discrepancy	—.1	—.7	—.8	0

Source: Survey of Current Business
(1) Excluding Banks and Insurance Companies
(2) Data for 1949 are partly estimated
(3) Less than $50 million

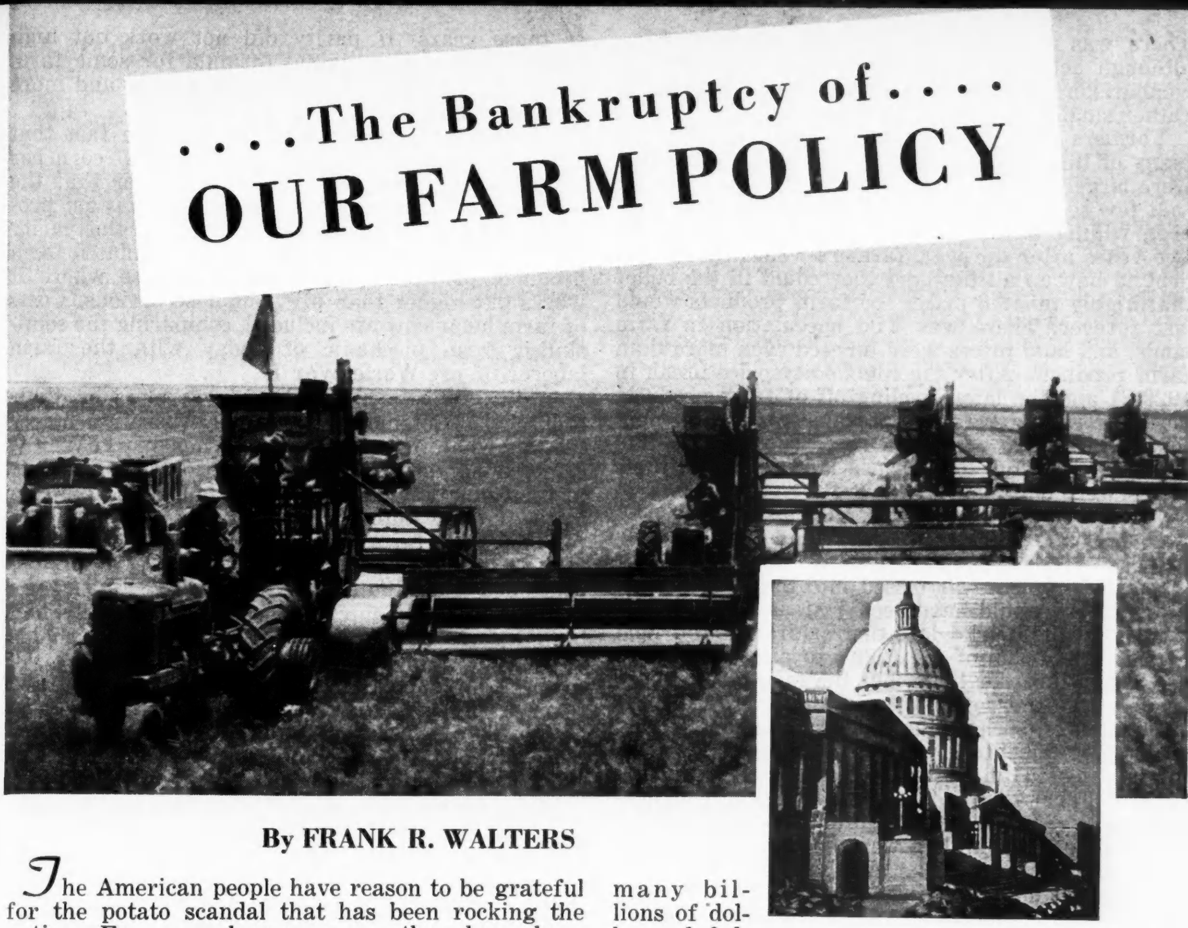
Dividend Stability Should Increase Investor Confidence

As the fruits of sound financial management are being reaped in the form of more stable dividends, investor confidence is bound to gain and this should not be lost on share valuations, since it should add to the investment attraction of equities in soundly managed corporations. Something of the sort has already been evident for some time as witness investor preference of better grade equities and the broadening of stock ownership in soundly managed concerns. In a most direct manner it can be said that prudent corporate management has been laying a sound and lasting foundation for wider ownership in private enterprise, reversing the situation prevailing after the Thirties when the severe decline in stock prices discouraged widespread public investment in common stocks. Stock prices of course will continue to fluctuate and business will have its ups and downs, but greater dividend stability arising from financial strength is bound to prove a stabilizing factor.

The record of corporate management of the past decade is by far the best in the nation's history and there is every reason to believe that it will be maintained in view of the excellent results achieved. The fact that these were achieved in part during a period of severe inflation only enhances this accomplishment, for inflationary periods are full of pitfalls and temptations.

Moreover, the postwar expansion of corporate assets as well as the relatively moderate increase in debt was a natural rebound from the low wartime rate of private capital (*Please turn to page* 58)

....The Bankruptcy of....
OUR FARM POLICY



By FRANK R. WALTERS

The American people have reason to be grateful for the potato scandal that has been rocking the nation. For several years now, they have been vaguely aware that something was wrong with a farm program calling for high Federal price supports for agricultural products at a time when employment and national income were at the highest levels in history. They had heard of the Government buying farm products and holding them until they spoiled, but no one could be too sure how much was fact and how much fiction. It remained for what we used to consider the lowly spud to arouse the people to demand a change.

The "Case of the Surplus Potatoes" has been so well publicized by now that there is little point in reviewing it. The real mystery is why it took so long to break.

In this connection, the observant will note that whereas the Department of Agriculture had previously followed a very hush-hush policy on its holdings of farm products and methods of disposal, it suddenly has become very open-handed with information and has seemed to go out of its way to make a bad case for the present loan and purchase methods of farm price supports.

There is more than a vague suspicion that USDA is working on the theory that every attack on the present program is a boost for the so-called Brannan plan. Many editors and other writers have fallen into the trap set for them and have provided Secretary of Agriculture Brannan with so much vitriolic condemnation of price supports and "surplus" disposal that his plan stands a good chance of winning by default. That would be a tragedy, for even the Secretary himself is unable to estimate how many billions of dollars of federal funds annually would have to be shelled out to raise farm income to what he calls "parity."

The idea of letting prices of farm products fall to the "natural" levels is a great vote catcher, and the Democratic Party is counting heavily on its appeal to the non-farm population. But what the people are not told is that, as a result of the sharp increase in taxes that inevitably will be necessary to meet the tremendous subsidies to farmers, the actual cost of farm products will be much higher than now. The theory that agriculture is entitled to a share of the national income commensurate with the agricultural proportion of the total population is preposterous, but few if any politicians are disposed to argue with it.

This writer wishes to go emphatically on record as declaring that nothing stated herein should be considered in any way as a boost for the Brannan plan for bankrupting the United States. The present program is bad, indescribably bad, but the Brannan plan is so much worse that it beggars description.

How It All Came About

It was back in the 1920's that the politicians began to talk of the "farm problem." Prices of wheat, corn, cotton, and other important farm products were well below their World War I and post-war extremely high levels — as also were prices of other commodities. Europe, which had taken great quantities of food from the United States during and immediately after the war, was back on its feet again.

There was much talk of surpluses piling up here, although actually the amounts were only large in comparison with the war and post-war periods of rather small crops and high demand.

Farmers were complaining of losing money, and many of them undoubtedly were. But their troubles were largely of their own making. This is a matter that few so-called agricultural economists ever have been willing to admit. During the war and in the two years after the war, farmers went heavily into debt to buy up all the land they could in the belief that highly inflated prices for farm products would last forever. There was wild speculation in farm lands, and land prices were inflated even more than farm products. After the commodity price break in 1920-21 and the later leveling off of farm products prices at well above pre-war values, many farmers found themselves in difficulty. Those who had avoided buying up high priced land to add to their farms were doing all right.

Congress Takes A Hand

So, the problem was tossed into the laps of Congress. There would have been just as much justification for those who lost their shirts in the wild Florida land boom of the 1920's to ask Congress to "do something" for them, but the farm vote cannot be ignored. And so, there was much agitation for various plans, such as the McNary-Haugen bill and the Export-Debenture plan for helping the farmer, culminating in the establishment in 1929 of the Federal Farm Board. The Board's feeble attempts to "stabilize" prices of farm products via a "revolving fund" of $500 million were doomed to failure in the world economic crisis and general price deflation that got under way at almost the same time as the Board. The principle had been established, however, of Federal intervention to nullify the law of supply and demand as the price making factors for farm products.

The Roosevelt Administration, coming into power in 1933, moved quickly to establish its program of "parity" for agriculture. This took the form of acreage and production controls, loans to support farm products prices, and direct parity payments. There may have been considerable justification for the original Agricultural Adjustment Act for farmers, as there was for the National Industrial Recovery Act (NRA) for business, in view of the havoc created by the long depression. It is noteworthy, however, that no attempt was made to set up a new NRA after the Supreme Court found it unconstitutional, whereas after the Court ruled against the AAA, the Department of Agriculture found a way to utilize soil conservation to circumvent the Court decision.

Parity Principle Retained

There have been several revisions of the basic Act, but the principle of parity has been retained. While described as equitable and designed to return to farmers prices for their products that are fair in relation to the products that farmers must buy for use in production and household maintenance, parity actually is one of the most gigantic frauds that ever has been put over on the American people. The original base period, 1909-1914, was a period when farm prices were unusually high relative to other products as a result of short crops in several of those years. If parity did not work out high enough under the original formula for some farm products, the base was shifted to a later and more favorable period.

No recognition ever was given to the fact that scientific imrovement had raised yields of corn per acre, milk per cow, eggs per hen, etc. or that the increased mechanization of agriculture has cut production costs. In the latest revision of the parity formula, the past ten years of greatly inflated farm products prices may be used as a base where it works out higher than previous base periods. Costs of farm labor now are included, comparing the semi-skilled farm mechanic of today with the farm laborer of pre-World War I.

In the early days of loans to farmers on their crops, the Commodity Credit Corporation never lent anywhere near full parity. When World War II came along and the Administration attempted to prevent inflation via OPA, the farm bloc in Congress actually wrote into the Stabilization Act measures for boosting farm prices. Loans on crops were raised to 90 percent of parity or more, to be discontinued after the end of the war.

Whereas price support measures originally had been largely confined to the basic non-perishable crops, the war emergency gave practically all farmers an opportunity to hop aboard the gravy train. The Agricultural Act of 1948, the so-called Hope-Aiken Act, was designed to get loans and other price support measures down to more reasonable levels, but was amended in 1949 to keep supports higher.

While provision is made for acreage and production controls, with compliance a necessity for support eligibility, there is no assurance that crops will be particularly smaller as a result. During recent years of high support prices, farmers have raised large crops, and government-owned stocks of farm products taken over on support operations have mounted to tremendous proportions.

Government Loaded With Huge Surpluses

In 1939, even at much lower support levels, the Government was loaded up to the hilt with stocks of wheat, corn, cotton, etc. The farm program recognizably was a dismal failure. It was clear that, given any price guarantee, farmers would overplant. In 1939, there was no possibility of the Government ever working off its huge stocks. And then came the war with its tremendous demands to bail Washington out of an untenable situation.

Today, we are well on our way back to where we were in 1939. In a few years, even with production and acreage controls in effect, surpluses may be even more burdensome. Foreign outlets are diminishing, and it is apparent that Congress will not permit drastic reductions in acreage and marketing quotas that might bring supplies down to something like normal.

We are paying now and will continue to pay for a long time to come for the folly of not putting ceilings on farm products during the war and for not dropping high farm price supports once the war emergency was over. The workings of economic law can be postponed but cannot be thwarted indefinitely. If prices are held above their true supply-demand determined levels, producers inevitably will overproduce and there is no legislation that can be devised to prevent it.

Rigid production controls might be possible in a dictatorship but they are not possible in a democracy. For farmers have votes and politicians will not displease them. By now, farm legislation has become no more than a vote getting racket. The Democrats have discovered a formula that seems to assure them the once normally Republican farmer vote of the Middle West. Republicans from farm areas have gone along rather than appear niggardly to their constituents. The Brannan plan is merely a new scheme for holding the farm vote to the Democratic wagon.

No Economic Justification for Price Supports

These are harsh words but unfortunately true. Except in an extreme emergency, such as existed in the early 1930's, there is no economic justification for farm price supports, production controls, etc. Farming is a business and often very big business. There is no reason, except vote catching, why farmers as a group are entitled to any more consideration than other business men.

The concept of a parity price for farm products is ridiculous. No formula ever could be devised that gave proper consideration to the differences in the various parts of the United States for the numerous types of farming. No formula ever could attempt to keep pace with scientific progress in farming that is ever lowering the cost of production. Yet, there are people who talk of parity as if it were something sacred.

In recent years of full production and high farm prices, farmers have come to expect more than their share of the national income. This cannot continue indefinitely. Consumers cannot spend a larger than usual percentage of their income for food and still buy their usual percentage of the products of industry. The use of war-time savings, the tremendous expansion in consumer credit, and the impetus furnished by the very high level of capital expenditures have helped to create the illusion that high food prices are not important. But, these props are beginning to give way.

Just as it is impossible to set up a parity formula that is equitable, so is it impossible to set up production and acreage quotas that are equitable. Neither in prices nor production is there anything sacred in historical relationships. We do not live in a static economy. The common formula, when setting up production quotas in order to reduce crops, has been to apportion the determined national quota to individual farmers on the basis of their production in some recent base period. Farmers in newer areas, as cotton growers in California, are penalized. Those in older areas benefit. Absolutely no consideration is given to high versus low cost areas or farmers.

We now are beginning to get at what has been wrong with the whole concept of agricultural legislation. There are inefficient farmers and there are farms where even efficient farmers cannot make a living except under the very best of conditions. Some of these farmers should not be in farming. They are far better suited for other occupations. Some land now in farms should be turned back to forest or used for grazing. While scientific progress in agriculture and mechanization are tending increasingly to lower prices of foods and other farm products, consumers are prevented from sharing in these benefits when low cost producers are held down by quotas. Both price supports and production quotas are designed to keep inefficient farms and farmers in operation. We hamper efficiency and put premiums on inefficiency.

Since there is a physical limitation on the amount of food that people can eat, it is probable that not more than 80 to 85 percent of the present farm population, under efficient operation, is needed to produce all the food for domestic use plus workable exports.

That is a hard, cold fact that even the politicians cannot refute. The percentage may be even smaller for some crops and is tending to decline constantly. Mechanization of the farming process, improved seed and breeding stock, and scientific methods have stepped up food productive capacity more rapidly than called for by a population growth and improved diets.

In the nineteenth century, the opening up of the West crowded many New England farmers out of wheat growing. But instead of clamoring for Federal help in the way of price supports, subsidies or quotas to enable them to maintain inefficient production and halt the expansion of more efficient farming in the West, they turned to other occupations such as industry and trade.

For many decades, a steadily declining percentage of the population has been required to produce the food needs of the nation. There is nothing wrong about this. It is a mark of progress. In agriculture, as in industry, new methods and new areas have tended to expand low-priced production and force out high cost areas and producers.

All of the various methods of "helping" the farmer that have been used to date, and including the proposed Brannan plan, represent nothing more than attempts to halt this (*Please turn to page* 52)

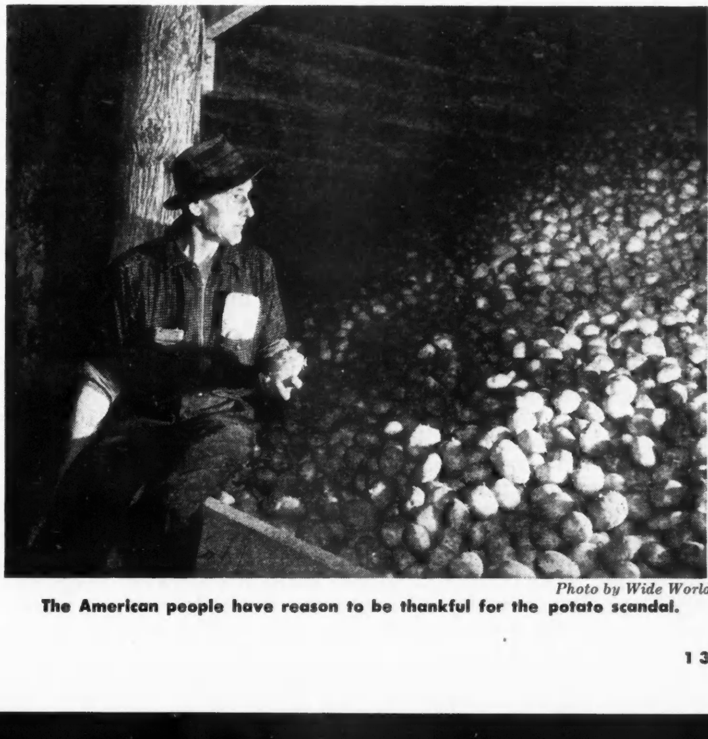
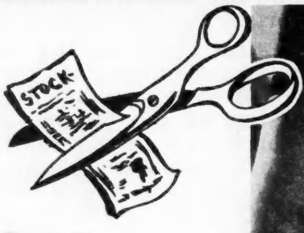


Photo by Wide World

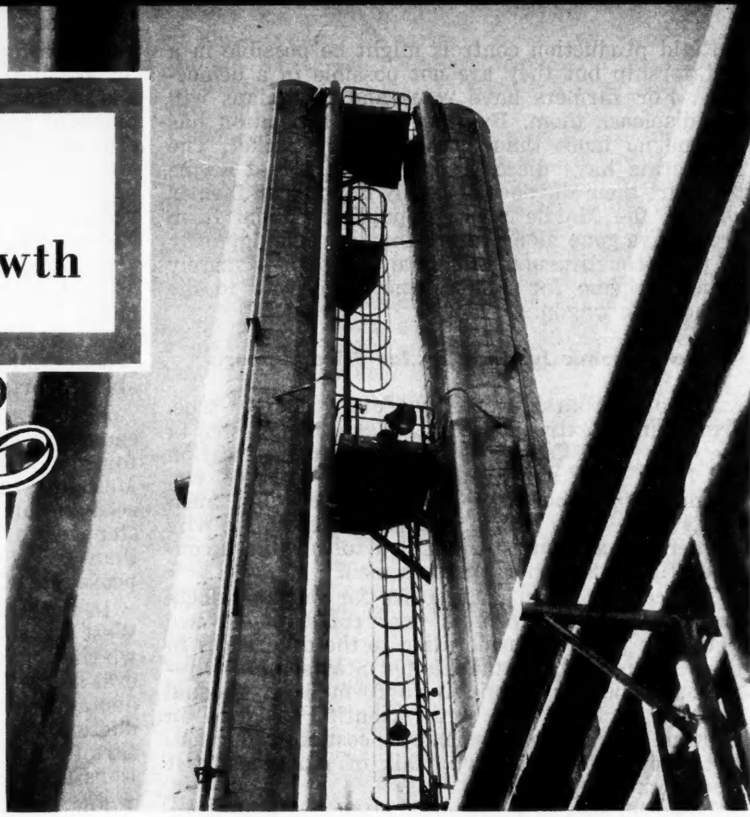
The American people have reason to be thankful for the potato scandal.

Capitalizing Corporate Growth



Through STOCK SPLITS

By GEORGE W. MATHIS



The glamorous aspects of stock splits in the public mind too frequently transcend the sounder reasons that usually lie at bottom of such a decision by managements. Since any enterprise is free to enlarge its capital structure by the simple process of multiplying the number of its shares without additional investment, and the process often stimulates speculative activity, there have been instances where over-emphasis of the step eventually became apparent. On the other hand, where stock-splits validly reflect dynamic corporate growth, their fortune-building potentials over the longer term have usually been proved.

Fortunately most of the 180 corporations that have split their shares since the end of World War II have done so to the benefit of not only their stockholders but to the business as well. So many concerns in postwar have surged ahead in the period of record economic expansion, lifting both capital assets and working capital substantially, that their former relationship to the number of common shares became widely distorted. Add to this the fact that earnings probably will level off rather permanently on a higher plateau than in prewar, and the reasons for spreading them over a larger number of shares gain added weight.

Because of retention of substantial amounts of earnings by managements in recent years, involuntary investment by their stockholders has expanded at a record pace. This validly suggests creation of a thick cushion to stabilize dividends during uncertain periods in the future. By and large, this assumption is certainly warranted, as shown by the fact that for a number of years in the depressed 1930s, industry as a whole drew on its fat accumulated in the booming 1920s to distribute dividend totals in excess of earnings. It is equally true that the completion of postwar capital programs will enable many companies to disburse an increasing share of earnings to stockholders by boosting rates or by declaration of extras. Despite these potentials, however, the postwar wave of stock splits indicates that many managements consider the stock split method a desirable way of attaining the same ends.

Also, with scarcity of venture capital a serious problem and with many of our giant enterprises struggling against odds to combat heavy political and labor pressure, wider distribution of their shares among a larger group of stockholders has become a wise aim. Beyond any doubt, one of the best methods to attain this goal is by lowering share quotations through split-ups which after all involve no diminution of basic values.

Growing Shareholder Lists

Although increased speculative activity since midsummer 1949 has brought many new investors into the market, this factor alone has by no means accounted for the growing stockholder lists of outstanding companies that split their shares last year. Shareholders in duPont, for example, increased by nearly 15,000 in 1949, while the list of common stockholders in United States Steel expanded by 8,427 in the period between August 5 and February 10. In due time, the availability of both the aforementioned equities at a fraction of their presplit prices should further swell the number of shareholders, and enhance potentials for subscriptions to new capital if the need ever arose.

How much significance investors should accord to stock splits depends in large measure on the motivation of the management, but more importantly on evidence of company growth in the past and pros-

Price Trend of Shares Split in 1949

	Effective Date of Split	Basis of Split	Pre-Split Price Adjusted	1949-50 High	1949-50 Low	Recent Price	Percent. Change from Pre-Split Price to Recent Price
Abbott Laboratories	4-19	2-1	39⅝	54½	37	47⅛	+19.0%
Acme Steel	6-16	2-1	18½	21½	17⅞	20¼	+19.0
Admiral Corp.	12-8	2-1	15	26¾	14½	27⅛	+80.8
Beatrice Foods	10-25	2-1	27	34¼	26¾	33½	+24.1
Caterpillar Tractor	5-27	2-1	28¾	37⅛	26⅞	36¼	+26.1
Du Pont	6-16	4-1	44	66½	43¼	67⅞	+54.2
El Paso Natural Gas	4-18	3-1	26½	29	23⅝	27½	+ 3.7
Falstaff Brewing	10-14	2-1	19¾	23¾	19¼	20⅛	+ 1.2
International Paper	12-21	2-1	33¾	39⅞	33½	39½	+17.0
Knott Hotels	3-22	2-1	13¾	16⅛	9¼	14⅜	+ 4.5
Lion Oil	5-5	2-1	21⅝	33⅞	19	30⅞	+42.7
Merck & Co.	4-20	2-1	29¼	43¾	27	41	+40.0
Midland Steel Products	5-4	2-1	22½	34	18⅛	31¼	+38.8
Panhandle Eastern Pipeline	12-28	2-1	36⅞	49¾	34½	47½	+28.1
Ronson Art Metal Works	5-17	2-1	12¾	19¾	10¼	18	+40.0
United States Steel	6-3	3-1	22	32½	20¼	32⅜	+47.1

pects for continuance of the trend. When these factors seem satisfactory on appraisal, investors can often refute the rather broadly accepted notion that stock splits mean little more than cutting a piece of cake in two, or the reception of duplicate coat checks at a cloak room, as one leading industrialist recently suggested in resisting pressure to split the shares of his company. One has only to note how stockholders in dynamic enterprises have built up fortunes through repeated stock splits over a long period, attended by a consistent growth in income, to avoid undue skepticism over their inherent merit.

Look at the classic example of International Business Machines, for instance; the original investors now receive annual dividends well in excess of what they first paid for their shares, and despite numerous stock splits and frequent stock dividends, the stock is now quoted around 240. It is interesting to consider how fantastic the current price and dividend rate would be, had not the company wisely kept its capital structure adequately adjusted to rising earning power in the course of its long sustained growth.

Thus when managements in clearly indicated growth situations multiply the number of shares through stock splits or stock dividends, the process may mean a good deal more than just handing out receipts for sizeable earnings formerly retained. Where the split-up has a genuinely sound foundation, it is a signal of healthy progress and gives promise of repetition in due time. It is this element, combined with satisfactory dividends, that eventually will determine market appraisal of the shares at higher levels. Undeniably the establishment of a lower price base through a stock split enhances potentials for price appreciation in favorable market periods, although the rate of gain should be measured in terms of percentage rather than in points.

Postwar Waves of Stock-Splits Subsiding

The rash of stock splits in the last few years has been subsiding, mainly due to the increasing scarcity of logical candidates. In 1949 only seventeen stocks listed on the New York Stock Exchange were subdivided against 30 in the preceding year. To judge from at least eleven companies that have proposed splits thus far in 1950, however, the number may moderately increase (*Please turn to page* 55)

Statistical Data on Shares Proposed for Split in 1950

	Net Asset Value Per Share 1940	Net Asset Value Per Share 1949	Net Per Share 1948*	Net Per Share 1949	Div. 1949	Price Range 1949-50 High	Price Range 1949-50 Low	Recent Price	Basis of Proposed Split
Community Public Service	$33.20	$40.52	$3.98	(E)$4.40	$2.00	45¾	27¼	44⅝	3—1
Consolidated Gas of Baltimore	41.63	54.00	4.25	4.57	3.60	77¾	58½	77½	3—1
General Fireproofing	15.32	44.70	9.24	11.57	5.00	45⅜	29¼	44⅜	2—1
Minneapolis-Honeywell	6.70	22.35	4.49	6.05	2.62	74⅜	43½	70½	2—1
National Steel	57.40	99.56	16.35	16.02	5.50	110½	73½	109½	3—1
N. Y. State Electric & Gas	79.20	127.78	4.65	4.56	3.40	58⅜	48¼	57¾	2—1
Pfeiffer Brewing	4.95	15.77	3.99	6.29	(a)2.00	44⅞	17	44	2—1
Public Service of Colorado	23.75	31.10	4.22	(E)4.75	2.30	53	38	51⅜	2—1
Skelly Oil	32.65	113.50	29.79	20.05	(a)5.00	127½	97	110½	2—1
United Carr Fastener	14.00	31.53	6.50	7.22	3.00	49	29⅝	46½	2—1
Wheeling Steel	42.32	137.42	23.24	10.68	4.00	51½	29¾	51	2—1

(a)—Plus stock (E)—Estimated

CONGRESS versus STATE DEPARTMENT

By E. K. T.

PRESIDENT TRUMAN, if he follows the advice of top party advisers, won't open up on republican retreat from bi-partisan foreign policy during his semi-political trip to the West Coast. His metropolitan center addresses and whistle-stop talks with the people will be, for the most part, in sections of the country which still look askance upon "entangling alliances" and the reception might be cool. That means Secretary of State Acheson will be left holding the bag for a little longer insofar as the White House is concerned. But lesser lights in the Administration will fight back. Speech by Senator William Benton, former assistant state secretary, was the first, others will follow.

> ***WASHINGTON SEES:***
>
> The feud between the State Department and congress is intensifying. Simmering for more than two years, it finally is beginning to erupt and the action will be swift and decisive from this point on, until there is a showdown which could remove the last vestiges of bi-partisan international policy.
>
> The unity of parties on foreign affairs had its weakness in the very beginning for it was not truly bi-partisan. Knowing the republicans had no alternative but to accept, the State Department made the policy, permitted the GOP to acquiesce. But the end of the war saw a switch; it no longer was a patriotic necessity to withhold opposing comment. And then the lessening activity of Senator Arthur H. Vandenberg, Michigan republican who has held his party in line, doomed at least the outward show of unity.
>
> Senator Joseph McCarthy's "red purge" of the State Department is basically a peg to hang a deeper objective on. (He could have accomplished his declared goal in private conference with Secretary Acheson, if that were not true.)
>
> Now the ECA appropriation bill comes up — seaprated from other money measures which already will have buried the government in deficit operation. The republicans, aided by a sufficient number of anti-Truman democrats will slash it to ribbons. They'll kill the White House Point 4 "aid to under-developed nations" plan; they'll reject membership in the International Trade Organization. And that's only the beginning.

MEANWHILE speculation that President Truman might send Chief Justice Fred Vinson to the Kremlin has been revived by Vinson's visit to the President's retreat at Key West, Florida. Mr. Truman, it will be remembered, had planned such a bold gesture once before, abandoned the idea when he was told his action might be interpreted as political. Afterward he chilled to his own idea, said emphatically an international conference is still desired — "but it must be inside these (White House) doors." Aides at Key West wouldn't stultify themselves by denying the world situation was discussed, but wouldn't amplify.

ORGANIZED labor, as represented by the American Federation of Labor is bemusing itself that an economic Utopia can be brought into existence. AFL has the complete blueprint, all that is needed is congressional cooperation. But there is the fatal difficulty of impracticality. The labor organization has begun its drive on congress over two roads: one cites the anticipated further drop in exports to foreign countries and asks the lawmakers to legislate encouragements to greater shipments; the other supplies statistics to prove that the American workingman needs tariff protection, asks that competing imports be barred.

ANOTHER labor front, the powerful Machinists Union, is steeped in pessimism. If elections were to take place next week instead of in November, the machinists say the liberals would be routed and the reason is: no record of achievement. They're whispering "Eighty-worst Congress" and pointing out that only 60 days remain to create a decent showing to go to the people. There is less optimism in labor ranks than among professional politicians.

As We Go To Press

At the midway point of the congressional session, Truman Fair Deal promoters are looking back and ahead, not quite certain whether they are happy or displeased with the product and the prospect. Viewed from a purely legislative standpoint, there is very little to be proud of. Some of the more politically-minded congressmen in the democratic party say they'd like to have the winning platform of the last election to run on again. And from present appearances, they will have it; it seems certain that very little of it will become law.

Some compromises are ahead. They may save the titles but will lose the substance of the laws promised the electorate. An example of that was the house-enacted Fair Employment Practices Commission which has only faint resemblance to the FEPC that was talked about before the 1948 election. Today there is no such thing as a "must" list of White House proposals; in fact there will be little more than "talking for the record" when many of them reach the floor in the normal course of things legislative.

Down the drain, unless something unlooked-for happens, are the political promises of Taft-Hartley Act repeal or revision, the federal aid to education bill, cooperative housing with special attention to the "middle class," and extended federal rent controls. Repeal of the taxes on oleo and stop-gap aid to Korea stand out as "accomplishments."

Held back by the decision to group most appropriations under an omnibus bill, not a solitary money measure has been put under the searching light of debate as yet. The $23.4 billion dollar aggregate budget which the house committee has thrown out for discussion, cuts almost one billion dollars from the White House proposals, but projects a 4 billion dollar deficit in next year's operations. And it doesn't seem to please anybody on Capitol Hill -- not even the committeemen who sent it to the floor. Their vote was on strict party lines, but it is evident that they were drafting the question for formal debate, not deciding the issue.

To be borne in mind is the fact that the appropriations committee action doesn't reflect the probable costs of federal government operation in the next fiscal year -- not by at least 11.5 billion dollars! In fact it hardly justifies the title "omnibus bill." To come up in later measures are such costly items as Marshall Plan aid to Western Europe, military assistance to the democracies, and the numerous appropriations for fixed charges such as interest on the debt which do not lend themselves to substantial revision at the hands of the congress members, but rather fall into the domain of the auditors and accountants.

Selective service manpower draft isn't making enough headway to give encouragement that it will be enacted as more than standby. Seemingly ignored is the President's idea that excise tax reduction cannot be carried beyond 650 million dollars. Talk on Capitol Hill now centers on a point about doubling the White House concession. Still there is an undercurrent of insistence that excises not be cut beyond the point where compensatory tax increases may overcome the Treasury loss. There may be found in that group, a sufficient number of votes to make up the necessary one-third of membership in either house to sustain a Presidential veto.

Social Security tax changes voted by the house come pretty close to fulfilling the promises of the democratic party. But the house proposals are running into difficulty on the senate side where a busy calendar may hold the bill off the floor until late in May. Should the senate make substantial changes in the house action, it may be extremely difficult to bring about an agreement in conference. That could doom the entire legislation.

Rep. John Taber of New York, the one-man economy bloc of the 80th Congress, may be given the job of knifing the omnibus appropriation bill. He'll attempt it anyway, but the big news is that he may be the formal choice of both the democrats and his own party to "manage" the legislation during the debate. If the tax-cutting bloc of democrats can be convinced that Taber won't play partisan politics or claim successful results as a GOP victory, he'll get full cooperation.

No matter what the house committee recommends in the line of appropriations, there will be a determined fight to send the bill back to committee with explicit instructions to cut one billion dollars more from the budgets. There is a conviction that the committee did not make a rock-bottom cut, aware that no recommended figure will be accepted. Taber's conversation with committeemen persuades him to the thinking that there is a billion dollars of "fat" spread over the items and he will ask recommital to render it off. The New Yorker is certain to make a half-hearted try for a balanced budget, will settle for a billion dollar cut.

Friends of the farmers, especially of the potato growers, are frankly disappointed at disregard of the government's request that smaller crops be planted this year. Every indication is that a huge potato surplus will be found next year. There will be over-supply, to, of grains and particularly feed crops. A cut of 7 per cent in the plantings of potatoes was scheduled. The reduction will be about 3 per cent. Last year's crop support for this item alone was 100 million dollars. The prospect is that the aggregate cost of support for five years will be half a billion dollars.

Far from the most important agricultural crop, potatoes are among the most strongly entrenched of the price-support commodities. The reason is simple: it isn't a regional product, large quantities are grown in every state. Maine and Idaho naturally reap the largest benefits from government aid, but there is sufficient financial interest in almost every constituency, outside the huge metropolitan districts, to keep congress members "friendly" to the needs of the potato growers.

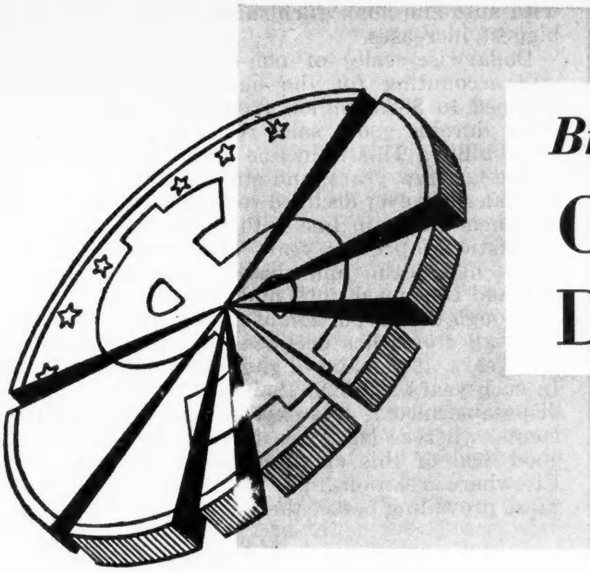
Outlet for much agricultural surplus may be opened up if the house foreign affairs committee plan to force the over-supply on Marshall Plan countries prevails. The idea is to reduce the ECA appropriation by one billion dollars cash, but give Western European countries an equivalent amount of CCC farm surpluses -- which they already have said they don't want!

Completely escaping attention of congress over the years, seems to be the over-generous vacation and sick leave allowances for the hundreds of thousands of federal workers. But the end, and a possible saving of 100 million dollars a year, is in sight. It is estimated that 75 per cent of white collar workers in private industry get not more than two weeks vacation each year. They, as taxpayers, are footing the bill for a federal system which congressmen are finally coming around to regard as indefensible.

A federal agency employee is allowed 26 working days vacation and 15 sick days leave each year, plus nine holidays. That adds up to 50 work days and on a five-day week (now fully observed in federal offices) means 10 weeks of paid layoff each year. Proposed, and widely favored in congress, is reduction of vacation by six days and sick leave by three days each year. That still would leave the federal payroller much better off than the personnel working in private industry.

The bill to reform vacation and sick leave is sponsored by Senator Paul Douglas of Illinois, democrat and leading liberal in the upper house. It is not subject to the ordinary type of attack -- that the draftsman is ""anti-labor." Douglas is massing statistical data to support his position, and it is a convincing argument.

A typical example: if a standard type of construction contract which the Navy Department is let out to private enterprise, costs for labor available at $1 an hour in a private installation are entered at exactly that amount; if to be performed in a government facility, 17 cents an hour must be added to cover the special advantages a federal payroller receives. The White House was cool to the proposition at first, now has switched and has sent Budget Director Frank Pace into the fray on the side of economy.



Breaking Down the CONSUMER DOLLAR

By JOHN D. C. WELDON

How the public spends its money has always been of keen interest to market analysts and businessmen generally. It is scarcely less important to investors, for any marked shifts in the consumer spending pattern is bound to affect sales and earnings trends of individual industries and companies. A breakdown of the spending pattern not only reveals trends in consumer preferences but also points out which industries and companies are likely to lead, and which to fall behind in the race for the consumer dollar. Thus an analysis of spending trends always deserves attention; usually also it brings out facts and trends of which the average layman is little aware.

Thus few perhaps realize that the public last year spent forty cents out of every dollar that went into retail channels for food and automobiles, with the biggest slice — 23.6 cents — going for food, customarily the largest item in the consumer budget. Automobiles accounted for 16.4 cents. But this is only half the story. If we add related items, such as sales of eating and drinking places, parts and auto accessory stores, and filling stations, we find that the public has spent 32.4 cents out of every retail dollar for food and drink (excepting liquor store sales which would add another 1.4 cents), and 22.8 cents at auto and accessory dealers, a combined total of more than 55 cents out of every retail dollar.

This is a significant proportion and explains in part while spending in other directions has been lagging. Just how much is involved becomes evident when we consider that total retail store sales last year aggregated \$128 billion, only 1½% under the record high of \$130 billion in 1948. The unprecedented number of passenger automobiles sold in 1949, which permitted motor vehicle dealers to record an 18% increase in dollar sales, contributed materially to maintenance of a high spending total. Sales of retail stores other than motor vehicle dealers were 5% below 1948. This also finds reflection in the breakdown between durable and non-durable goods stores.

The former took in 31.1 cents of each retail dollar, highest on record and comparing with 29.2 cents in 1948 and 28.1 cents in 1941. The balance of 68.9 cents went to non-durable goods stores, as against 70.8 cents last year and 71.9 cents in 1941. Durable goods, in short, have been gaining at the expense of soft goods, principally due to exceptional demand for automobiles.

Non-durable goods stores reported fairly substantial decreases. Dollar sales of both men's and women's wear were down about 8% but part of these drops—particularly in women's apparel—reflected the availability of goods of equal or higher quality at lower prices than in 1948, and trading down may also have been important. At shoe stores, where prices are more stable, the 1949 decline in sales was about 4%. Drug store sales were down 2%, and department store sales 6%.

According to the Department of Commerce which has compiled these data, figures on tax collections indicate that sales of luxury goods continued the downward slide in evidence since early 1948. Excise taxes on furs fell about 28%, those on jewelry 10%. Moreover, examination of department store sales points to greater decreases in sales of those departments carrying higher priced merchandise. The same tendency is shown by the fact that sales in basement stores which generally display lower-priced items, were down only 3% while the figure for the main stores was 7%.

Varying Trends Among Durable Goods

Interestingly, though the durable goods group as a whole showed an increase in sales because of the large gain of motor vehicle dealers, declines were registered by most stores whose major lines consisted of consumer durables other than autos. In the home furnishings group, trade was bolstered by booming sales of television sets and some major

Sales of Retail Stores by Kinds of Business
(Millions of Dollars)

	1948	% to Total	1949	% to Total
DURABLE GOODS STORES				
Automotive group	$ 19,309	14.8	$ 22,728	17.7
Building materials, hardware	10,710	8.2	9,509	7.4
Home-furnishings group	6,725	5.2	6,537	5.1
Jewelry	1,264	1.0	1,100	0.9
NON-DURABLE GOODS STORES				
Apparel group	9,865	7.6	9,175	7.1
Drug stores	3,687	2.8	3,605	2.8
Eating and drinking places	12,112	9.3	11,240	8.8
Food group	30,506	23.5	30,298	23.6
Filling stations	6,325	4.9	6,363	5.0
General merchandise group	17,015	13.1	16,019	12.5
Other retail stores	12,524	9.6	11,609	9.1
All retail stores	$130,042	100.0	$128,183	100.0

Source: U. S. Department of Commerce.

household appliances, and by strengthening demand for furniture and furnishings during the latter part of the year in line with the pick-up in residential building activity. Yet total dollar sales declined about 3%. In building materials and hardware stores, the percentage drop was substantially larger, 12% and 11% respectively, reflecting in part lower prices and greater availability of lower price lines.

Recovery Trend Continues

In most of the store groups, the downward drift in dollar sales lasted through the first seven or eight months of the year, with signs of recovery evident thereafter and continuing right into 1950. The home furnishings group showed a substantial pick-up as price reductions in TV-sets and electrical appliances helped stimulate demand, while the high level of residential construction contributed to livelier activity in furniture and house furnishings. Easier credit terms were also a factor. Total instalment sales credit last year was up more than one-third, with auto and home furnishings stores showing the biggest increases.

Dollarwise, sales of non-durable goods, though still accounting for the bulk of retail spending, dropped to $88.3 billion from $92 billion in 1948, while durable goods sales rose from $38 billion to $39.8 billion. This is in line with the trend evident in the last few years, and still continuing. Total retail sales however declined relative to income, bringing them closer in line with the relationship characteristic of prewar years and reversing a trend which had begun immediately following the war's end and continued until mid-1948.

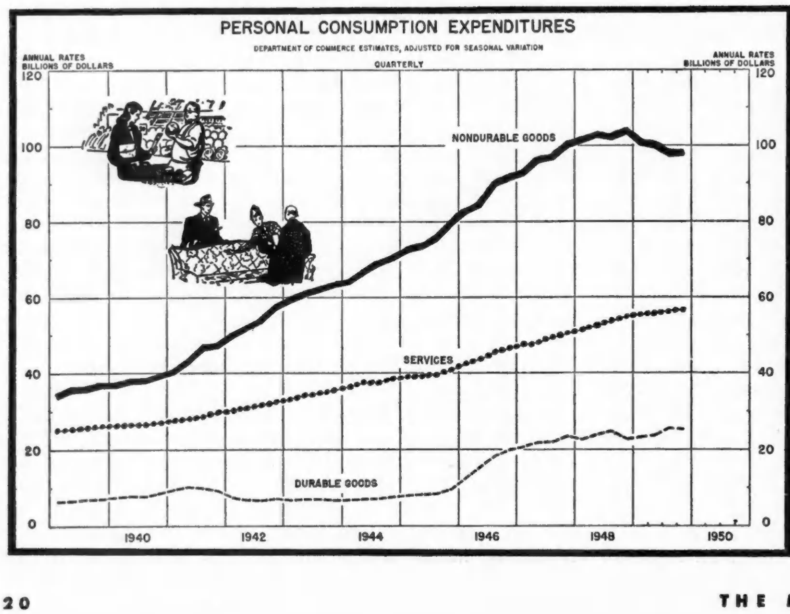
Though the proportion of disposable income spent at retail stores has declined somewhat in the past two years, it remains higher than before the war. In such years as 1929, 1939 or 1941, about 60% of disposable income was expended in retail establishments, whereas last year, it was two-thirds—but a good deal of this extra spending went for autos. Elsewhere relationships were generally close to those prevailing before the war.

Importance of Auto Boom

This highlights the importance of the postwar boom in autos to the economy as a whole, and retail trade in particular. Even today, automobiles remain the most important single consumption item for which the backlog demand has not yet been fully exhausted; once this is the case, a significant shift in spending relationships is likely to occur, reflecting a further adjustment from the distortions of the war and earlier postwar years.

Non-durable goods sales may well benefit therefrom, particularly if aggregate consumer income holds around current levels. In that event we may witness an even closer reapproach to prewar relationships to disposable income, with enhanced potentials for apparel, department stores and other general merchandise stores. Even food stores may gain.

Inevitably they will do so, on a relative basis, should disposable income decline in the future. In the boom year 1929, for example, 22.6 cents of the retail dollar went to food stores, as against 27.6 cents in the depression year 1933, and the ratio was back down to 22.7 cents in fairly prosperous 1941.



Durable goods sales, in short, tend to fluctuate with the business cycle; food sales remain far more stable. Last year, at $30.3 billion, they came quite close to the 1948 figure of $30.5 billion; physical purchases were probably somewhat higher because of lower food prices. In 1947, they amounted to $28.4 billion, but the lower figure was principally due to price disparities.

Should disposable income remain high, the increased importance of durable goods in the nation's spending pattern may readily become a more lasting influence though naturally of lesser relative import than during the immediate postwar years. Population growth will tend to work in the same direction. Still cycli-

cal fluctuations can hardly be eliminated, whether the result of fluctuations in disposable income or because of periodic saturation of markets with subsequent reduction of sales potentials to replacement needs.

It stands to reason that current and indicated spending trends are never without effect on merchandising policies, and will receive even greater attention as consumer selectivity mounts. Doubtless high food costs are still encroaching on buying power for other goods that otherwise might be more readily purchased. Any further decline in food costs thus will release funds that should restimulate greater demand for other products—provided that overall spending power is maintained. Assuming the latter, it may be a safe conclusion that what may then be expected are shifts rather than a decline in consumer spending even when abnormal postwar trends have run their course. If so, this is apt to intensify future cross currents in business.

A few such trends have already become discernible. Sales of clothing and other soft goods have shown moderate improvement in recent months but soft goods sellers continue to look with envy at the sensational sales gains chalked up by autos and television which many hold responsible for the generally poor showing of apparel lines. January sales of autos and automotive equipment accounted for almost 20 cents of the retail dollar compared with the 1949 average of 17.8 cents and 15.4 cents in 1941. TV-sets and major household appliances have also shown smart sales increases. It is understandable that merchandisers of soft goods are discouraged by this showing, for well they know that while the hard goods boom lasts, soft goods sales are not likely to return to a normal relationship to spendable income.

1950 Should Be Good Retailing Year

Due to the consumer desire for numerous hard goods such as those mentioned, consumer spending this year promises to remain high though it is not likely to rise much. On the other hand, despite evidences of caution, it is not likely to fall off in any important degree. Though retail sales last year were off a nominal 1½%, personal consumption expenditures rose to \$179.4 billion from \$178.8 billion and in 1950 should not come down much from this approximate level, if at all. The outlook thus points to a fairly good retailing year.

While showing the 1948 (*Please turn to page* 50)

Personal Consumption Expenditures by Type of Product
(In Billions of Dollars)

	1948	1947	1946	1945	1944	1940	1937	1933	1929
TOTAL CONSUMPTION EXPENDITURES	178.8	164.7	147.4	122.8	111.4	72.1	67.1	46.3	78.8
Total Commodities	125.7	117.4	103.7	83.6	74.4	45.4	42.2	25.8	47.1
Per cent of total	70.7	71.2	70.0	68.0	67.0	63.1	62.9	55.6	59.8
Durable Commodities	23.5	20.9	16.2	8.2	6.8	7.9	7.0	3.5	9.4
Per cent of total	13.4	13.5	10.4	6.7	6.1	10.9	10.4	7.6	11.9
Non-Durable Commodities	102.2	96.5	87.5	75.4	67.5	37.6	35.2	22.3	37.7
Per cent of total	57.3	58.7	59.6	61.5	60.9	52.2	52.5	48.0	47.9
Total Services	53.1	47.3	43.6	39.2	37.0	26.6	24.9	20.6	31.7
Per cent of total	29.3	28.7	29.7	32.0	33.4	36.9	37.1	44.4	40.2
Food and Tobacco	65.2	61.8	55.0	46.3	41.8	22.6	21.6	12.8	21.4
Per cent of total	36.5	37.5	37.5	37.8	37.8	31.4	32.2	27.6	27.1
Clothing, Accessories and Jewelry	23.8	22.6	22.1	20.1	18.0	8.8	8.0	5.4	11.0
Per cent of total	13.3	13.7	15.0	16.4	16.2	12.2	11.9	11.6	14.0
Personal Care	2.3	2.3	2.4	2.1	1.8	1.1	1.0	.6	1.1
Per cent of total	1.3	1.4	1.6	1.7	1.6	1.5	1.4	1.4	1.4
Housing	15.9	14.4	13.2	12.2	11.7	9.2	8.4	7.8	11.4
Per cent of total	8.9	8.7	9.0	10.0	10.6	12.8	12.5	16.9	14.5
Household Operation	24.4	22.0	18.6	14.8	13.4	10.3	9.3	6.4	10.5
Per cent of total	13.8	13.4	13.6	12.0	12.1	14.3	13.9	13.8	13.3
Medical Care and Death Expenses	8.4	7.4	6.7	5.9	5.6	3.6	3.2	2.4	3.6
Per cent of total	4.7	4.5	4.6	4.8	5.0	5.0	4.8	5.2	4.6
Personal Business	7.1	6.0	5.5	4.8	4.5	3.8	3.9	3.1	5.2
Per cent of total	3.9	3.6	3.7	3.9	4.0	5.3	5.8	6.6	6.6
Transportation	17.6	15.5	11.8	6.4	5.6	7.0	6.4	3.9	7.5
Per cent of total	9.8	9.4	8.0	5.2	5.0	9.7	9.6	8.5	9.5
Recreation	10.0	9.4	8.6	6.0	5.3	3.7	3.4	2.2	4.3
Per cent of total	5.6	6.1	5.9	4.9	4.9	5.2	5.0	4.7	5.5
Private Education and Research	1.1	1.1	1.0	.8	.9	.6	.6	.5	.7
Per cent of total	.8	.7	.7	.6	.8	.9	.9	1.0	.8
Religious and Welfare Activities	1.6	1.6	1.6	1.6	1.6	1.0	.9	.9	1.2
Per cent of total	.9	1.0	1.1	1.3	1.4	1.4	1.3	1.9	1.5
Foreign Travel and Remittances	1.1	.7	.8	1.6	1.0	.2	.5	.4	.8
Per cent of total	.6	.4	.5	1.3	.9	.3	.7	.8	1.0

Source: Department of Commerce

By GEORGE L. MERTON

Worldwide emphasis on health has been greatly intensified by a seemingly endless stream of medical discoveries that challenge the imagination. In the course of a single decade, scientists have made amazing strides in probing the mysteries of life and to synthesize drugs that eventually may minimize or end the hazards of human illnesses. The horizon for future progress is so boundless that the growth potentials of certain drug manufacturers with established repute have increasingly become no mean consideration with investors who formerly placed major reliance on the traditional stability of the drug industry.

While beyond question the drug industry as a whole should experience expanding demand for a number of reasons, the prospects for a rapid and well sustained uptrend in profits by most of the leading units are rather limited. More than 1300 drug manufacturers in the United States, backed by a host of researchers, now vie for the fruits of scientific progress. The field is thus wide open to introduction to the most startlingly efficient new drugs, regardless of company size or whether a specialist in production of ethicals, proprietary drugs, fine chemicals, or all combined. Among the larger firms, the most valuable new item may be given a trade name and for a while reap lush profits without importantly lifting overall earnings depending on the sales of a host of other products.

More importantly, increased consumption of drugs rather than higher prices has accounted for the industry's steady rise in volume since the end of the war. Prices for ethical drugs (those mainly prescribed by physicians) are still surprisingly close to the level of ten years ago, and competition has prevented prices for proprietary brands from advancing significantly. Initial price of a new synthetic drug may seem so high as to suggest extremely favorable profits for its producer, but this seldom proves to be true. The fact usually is that until mass production is attained, heavy costs and the absorption of big research expenses keep profit margins well within bounds. When rapidly expanded output catches up with demand, as with penicillin and streptomycin last year, prices drop very fast and leave the manufacturers highly dependent on large volume with leaner margins.

Restraining Factor

An equally significant factor that restrains undue enthusiam about the profit potentials of new drug discoveries is the progressive development of improved products that may be still more effective in combatting disease. Only medical opinion based on widespread and prolonged tests can determine the merits or shortcomings of newly introduced drugs. Thus despite the heartening development of sulfa drugs and their benefit to mankind during the war years, gradual recognition of their after-effects tended to make for caution in their use.

This birth of antibiotics (drugs derived from moulds), however, led to an expanding array of better products, each outdoing the other in some respects yet leaving room for improved performance or wider scope. To list only a few of the "miracle

drugs" in the foregoing category, we might mention penicillin, streptomycin, aureomycin and terramycin, the latter just entering the market. It is said that no fewer than 300 new antibiotics have now gone through the testing stage and are being readied for near-term offering to the public and to the medical profession, each designed to fulfil a special purpose.

World-Wide Entrenchment

Now that American drug manufacturers have become strongly entrenched in world markets formerly controlled or dominated by German producers, and with health programs at home a major political issue, it is hardly surprising that sales of the industry reached a record high of around $1.6 billion last year. Widespread publicity over strides achieved in eliminating the need for mastoid operations, in dispelling the threats of pneumonia and whooping cough, in alleviating pain from arthritis and rheumatism, in scoring against typhoid fever, dysentery, spotted fever, gland troubles, tuberculosis and even leprosy—has doubtless created a desirable climate for increased consumption of drugs. As the medical profession has confirmed the validity of many of these claims after a period of severe testing, in many cases the ground has been well prepared for promotion of high grade drugs.

Medical opinion, however, still differs widely over the advertised merits of antihistamine remedies now freely offered for the first time as an early cure for the 300 million colds that annually plague the population of the United States and Canada. Meanwhile, the fact that these cold remedies require no medical prescription has enabled their producers to reap quite a substantial harvest, although it remains to be seen whether their popularity will prove permanent or turn out to be a passing fad.

From an operating viewpoint the large drug manufacturers are well situated in the current year. The cost of essential materials has measurably receded from the postwar peaks and appears to have levelled off dependably. Prices of innumerable drug products seem stable and well adjusted to consumer demand and operating costs. The latter are unusually well controlled by the leading manufacturers under current conditions, because outlays for raw materials absorb about 70% of their sales dollar and wage ratios averaging 10% are among the lowest of all industries.

Promotional Expenses

When it comes to promotional expenses, producers of ethical drugs are especially fortunate; advertising outlays are light since sales potentials hinge importantly on orders indirectly stemming from physicians. In contrast, manufacturers of proprietaries have to spend large sums for promotional purposes that often restrict their earnings. Both groups stand to benefit from completion of large scale modernization programs that have brought many operating economies.

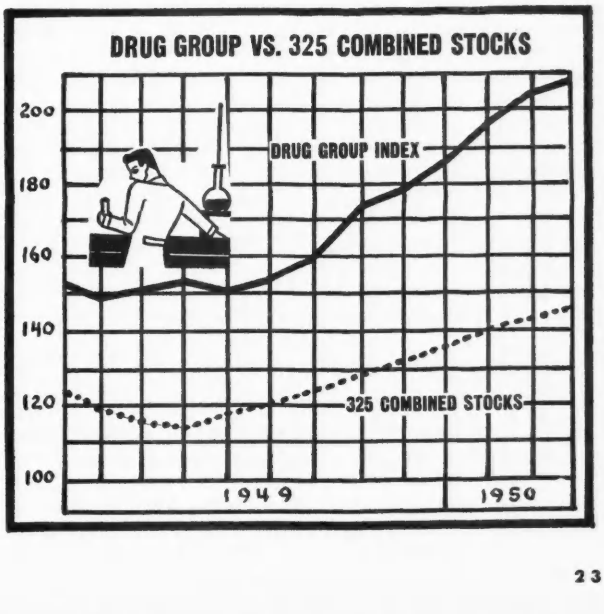
In a few instances there may be difficulty in amortizing heavy expenses incurred in expanding facilities for the production of penicillin and streptomycin, now that prices for these specialties have tumbled severely. On the other hand, the broadening demand for these and similar items may enable the more strongly entrenched manufacturers to earn satisfactory profits despite narrowed margins.

Although exports of drugs in 1949 reached a new high of $200 million, the record may stand for some time. This not only because sales will likely be influenced by the impact of currency devaluation abroad, but also because the recovery to more normal activity by many European drug manufacturers is becoming increasingly noticeable. Thus while ECA funds largely accounted for a slight uptrend in foreign sales last year, a probable reversal of the trend seems in sight. Dollar shortages in South American countries reduced purchases of American drugs to around $50 million in 1949 compared with $61.2 million in 1948, though sales to Canada, Mexico and other Central American countries rose somewhat. On the other hand, it is important to realize that numerous large domestic concerns have sizeable foreign operations and thus are in position to compete advantageously with manufacturers of various nationalities.

The operating problems, policies and opportunities of drug manufacturers vary in such wide degree that study of these factors on an individual basis is essential. For purposes of comparison we append a statistical table that reveals a broad range of operating data for many leaders in the drug group. To supplement this information, our discussion will now turn to comments on some of these concerns within space limitations.

1950 starts the second century of business by Charles Pfizer & Company, Inc., a leading producer of industrial chemicals, pharmaceuticals, food, beverages and animal fed. A major expansion in plant capacity and research facilities has held the company in the frontline as a pioneer in production of antibiotics as well as of fine chemicals. Increased output of penicillin and streptomycin last year enabled Pfizer to report total volume of $47.5 million, only fractionally below the preceding year, despite sharply reduced prices for antibiotics. While lower prices and higher operating costs reduced 1949 earnings to $5.18 a share from $6.35 in 1948, the fact that the operating margin showed as 28.8% and the net profit margin as 16.4% attests to marked managerial efficiency.

The company anticipates that new products should importantly enhance its volume potentials in the current year. In January, as result of prolonged re-



Comprehensive Statistics Analyzing

Figures are in million dollars, except where otherwise stated.	Abbott Laboratories	American Home Products	Bristol Myers	Lehn & Fink	McKesson & Robbins
CAPITALIZATION:					
Long Term Debt, Stated Value	....	$13.0	$10.0	$2.1	....
Preferred Stocks, Stated Value	....	....	$6.9	....	$15.0
Common Stocks (000 omitted)	3,739	3,858	1,381	396	1,676
Total Capitalization	$25.3	$17.2	$20.4	$4.1	$45.1
INCOME ACCOUNT: For Fiscal Year Ended	12/31/49	12/31/49	12/31/49	6/30/49	6/30/49
Net Sales	$67.5	$147.9	$42.7	$15.7	$356.6
Depreciation, Amortization, etc.	$.9	$1.8	$1.0	$.1	$.7
Taxes	$5.2	$8.3	$1.5	$.2	$5.6
Net Available for Interest	....	$18.5	$4.7	$.5	....
Interest (Bonds and Long Term Debt)	....	$.4	$.3	$.07	....
Preferred Dividend Requirements	....	....	$.2	....	$.6
Balance for Common	$10.0	$10.6	$2.4	$.4	$8.2
Operating Margin	24.1%	14.0%	10.4%	3.2%	4.1%
Net Profit Margin	14.8%	7.2%	6.3%	2.7%	2.4%
Percent Earned on Invested Capital	19.8%	18.3%	9.8%	7.4%	10.6%
Earned Per Common Share	$2.68	$2.77	$1.78	$1.11	$4.90
Current Price of Common	$49.00	$33.00	$24.00	$10.00	$41.00
Dividends	$1.80	$1.70	$1.60	$.37	$2.65
Dividend Yield	3.6%	5.1%	6.6%	3.7%	6.4%
Price-Earnings Ratio	18.2	11.9	13.4	9.0	8.3
BALANCE SHEET: Fiscal Year Ended	12/31/49	12/31/49	12/31/49	6/30/49	6/30/49
Cash Assets or Equivalent	$22.3	$28.3	$11.4	$2.7	$11.4
Inventories, Net	$18.9	$23.9	$7.2	$2.6	$63.4
Receivables, Net	$10.2	$13.3	$3.9	$.9	$26.0
Current Assets	$51.5	$67.5	$22.6	$6.5	$100.9
Current Liabilities	$17.1	$17.2	$2.1	$1.4	$30.7
Net Current Assets	$34.4	$50.3	$10.5	$5.1	$70.2
Fixed Assets, Net	$10.2	$22.8	$13.6	$1.9	$8.5
Total Assets	$69.6	$92.5	$39.7	$9.5	$113.3
Book Value Per Share	$14.05	$15.11	$14.98	$15.00	$40.30
Net Current Asset Value Per Share (b)	$9.20	$9.55	$2.58	$7.10	$32.90
Cash Assets Per Share	$6.00	$7.55	$8.27	$6.90	$6.80
Current Ratio	3.0	3.9	10.4	4.4	3.2
Inventories, % of Sales	28.0%	16.1%	17.0%	17.0%	17.8%
Inventories, % of Current Assets	36.9%	35.4%	32.2%	40.8%	62.7%
Depreciation, % of Gross Fixed Assets	5.1%	5.2%	5.5%	4.8%	5.5%

(a)—Preferred and Common Stocks are represented by a combined stated valuation of $14,138,464. Outstanding no-par preferred 229,085 shares.

search, synthetic Vitamin A was offered for sale. As we go to press, the new Pfizer antibiotic, Terramycin, is appearing on the market. After many months of testing by the medical profession, it is claimed that this new drug is effective against even virus pneumonia, undulant fever, typhus fever, whooping cough and various intestinal infections. Additionally, a number of other improved drugs and chemicals have reached the production stage. In 1949, Pfizer more than doubled its expenditures on research and by this method should keep abreast in its highly competitive field. The reputation and long dividend record (dating back to 1901) of the company lends considerable investment appeal to its shares which yield 4.5% at recent price.

Sharp & Dohme

Sharp & Dohme, leading producer of ethical drugs and prescription specialties, enjoyed unusual prosperity in 1949. Volume increased 10% to $38.9 million and consolidated net earnings advanced 16% to a new peak of $3.95 per share. The company's British subsidiary aided in these gains, as a phenom-

earnings allow for a reduction of $320,000 in their asset values due to currency devaluations.
inal growth in sales resulted from the introduction of socialized medicine. Sharpe & Dohme operates numerous plants throughout the world, and reported

How the revolutionary discoveries in medicine have affected the operations of this drug manufacturer is well shown by its statement that more than 40% of its 1949 sales were derived from products less than five years old. In line with this trend, contracts have been let for construction of a new research laboratory to cost $3.8 million. Interim dividends seem very dependable on a quarterly basis of 35 cents a share, as they represent only 41% of 1949 earnings, the balance having been retained for expansion requirements. When these needs are satisfied, especially if earnings continue their gradual uptrend, the large coverage of dividends by earnings suggests more liberal treatment of stockholders eventually. This factor undoubtedly accounts for a relatively modest yield of 3.1% at recent price of 39 for the shares, based on 1949 dividends, or 3.5% if the current quarterly rate continues through 1950.

No better illustration why stockholders place such

*Position of Individual Drug Companies**

Merck & Co.	Norwich Pharmacal	Park, Davis	Pfizer (Chas.) & Co.	Rexall Drug	Sharpe & Dohme	Squibb & Sons	Sterling Drug	Vick Chemical	Zonite Products
$5.0	$.8	....	....	$29.4	$.2	$2.9	$14.6	....	....
$17.8	....	....	$4.9	....	(a)	$23.4	$11.9	....	....
2,234	796	4,892	1,480	3,467	1,000	1,514	3,829	1,409	825
$23.9	$2.8	$14.1	$5.8	$37.9	$14.4	$27.8	$45.7	$3.0	$.7
12/31/49	12/31/49	12/31/49	12/31/49	12/31/49	12/31/49	6/30/49	12/31/49	6/30/49	12/31/49
$73.5	$12.2	$86.7	$47.5	$156.3	$38.9	$82.2	$133.0	$42.0	$4.5
$2.8	$.1	$.9	$1.9	$2.0	$.4	$1.0	$1.7	$.6	$.04
$5.0	$.8	$6.6	$6.1	$.4	$2.7	$4.8	$8.6	$2.8	$.1
$12.1	$2.2	....	....	Nil	$8.2	$13.0	$21.0	....	....
$.08	....	....	....	....	....	$.1	$.6	....	....
$.6	....	....	$.1	....	$.8	$.9	$.4	....	....
$6.4	$1.2	$12.4	$7.6	(d)	$3.9	$5.9	$12.5	$3.9	$.3
14.3%	18.6%	23.2%	28.8%	(d)	18.1%	15.2%	16.7%	17.1%	8.4%
9.4%	10.3%	14.3%	16.4%	Nil	12.2%	8.3%	9.8%	9.3%	7.6%
13.1%	21.3%	22.3%	19.5%	....	16.8%	16.4%	18.1%	19.7%	11.1%
$2.83	$1.59	$2.54	$5.18	(d)$.36	$3.95	$3.93	$3.31	$2.79	$.42
$41.00	$15.00	$39.00	$61.00	$5.00	$39.00	$38.00	$38.00	$23.00	$5.00
$1.80	$.90	$1.40	$2.75	Nil	$1.20	$1.25	$2.25	$1.20	$.25
4.4%	6.0%	3.6%	4.5%	....	3.1%	3.3%	5.8%	5.2%	5.0%
14.4	9.6	15.3	11.8	....	9.8	9.6	11.4	8.2	12.0
12/31/49	12/31/49	12/31/49	12/31/49	12/31/49	12/31/49	6/30/49	12/31/49	6/30/49	12/31/49
$12.9	$.5	$10.9	$15.8	$14.0	$9.3	$16.9	$15.2	$3.5	$1.0
$19.2	$2.0	$25.2	$11.7	$34.2	$10.0	$20.9	$32.6	$11.3	$.7
$5.2	$2.2	$11.1	$4.0	$8.2	$5.0	$11.2	$12.4	$2.5	$.6
$37.3	$4.8	$49.4	$31.5	$57.5	$26.4	$49.3	$60.3	$17.4	$2.5
$8.3	$1.5	$14.7	$10.2	$15.0	$5.7	$15.9	$15.6	$2.3	$.3
$29.0	$3.2	$34.7	$21.3	$42.5	$20.7	$33.4	$44.7	$15.1	$2.1
$30.5	$3.1	$20.4	$18.8	$20.1	$7.0	$17.5	$25.1	$5.7	$.8
$68.4	$8.2	$70.2	$51.3	$81.4	$34.2	$70.7	$105.8	$27.1	$3.4
$16.68	$7.42	$11.35	$23.80	$10.65	....	$18.00	$15.65	$14.07	$3.80
$2.72	$3.00	$7.09	$11.10	$3.77	....	$4.65	$4.70	$10.75	$2.54
$5.79	$.70	$2.24	$10.65	$4.04	$9.33	$11.20	$3.97	$2.46	$1.30
4.4	3.1	3.3	3.0	3.8	4.6	3.1	3.8	7.6	7.1
26.1%	16.5%	29.1%	24.6%	21.9%	25.8%	25.4%	24.5%	27.0%	15.9%
51.4%	42.0%	51.1%	37.2%	59.6%	38.1%	42.3%	54.0%	64.8%	28.4%
7.0%	3.4%	3.1%	6.6%	5.2%	4.3%	3.7%	4.6%	6.0%	2.8%

(b)—After deducting senior obligations.
*—Figures adjusted for stock-splits, in these computations minor sums have been disregarded.

strong confidence in the dividend stability and growth potentials of the leading ethical drug manufacturers can be found than by studying the record of Abbott Laboratories. This manufacturer of fine pharmaceuticals, biological and chemical products since 1888 now has branches or subsidiaries in 18 U. S. cities and 36 foreign countries. In the space of ten years, annual sales have risen from $15 million to $67.5 million and net earnings from $2.2 million to about $10 million. Stockholders have received cash dividends regularly since 1926 at least, supplemented by several stock dividends, while the shares have been split three times. Even in the last four years, total annual distributions to stockholders rose from about $1.9 million to $6.7 million in 1949.

Accounting for this outstanding experience has been the company's aggressive activity in research, resulting in the production of 519 new products in a decade, including 74 last year. To keep production abreast of discoveries, Abbott has greatly expanded its facilities, installing the most modern equipment to produce on a large scale such items as penicillin, antibiotics, insulin and streptomycin, to mention only a small number. How efficiently manufacture is conducted is shown by an operating margin of 24.1% in 1949, while net earnings represented 14.8% of sales. Abbott Laboratory shares have added attraction in that they constitute the sole capitalization, with no funded debt or preferred stock outstanding. A strong financial status is indicated by a current ratio of three to one (current assets to current liabilities). On the whole it is small wonder the shares sell at a price-earnings ratio of 18.2 and yield no more than 3.6%.

Merck & Company

Among manufacturers of pharmaceuticals, biologicals and vitamin products, Merck & Company ranks near the top. In the last ten years, sales have risen rather consistently from $23.7 million in 1940 to an all-time peak of $73.5 million in 1949. A drop in prices for streptomycin from $1.28 per gram to 48 cents, and for penicillin from 19 cents per 100,000 units to 12 cents during 1949, reduced net earnings to $2.83 per share from $3.68 in 1948. Now that prices seem to be more stable and demand continues at a high level, earnings (*Please turn to page* 48)

Photo by Duplan

. . . ANOTHER LET-DOWN IN . . .

TEXTILES?

By RICHARD COLSTON

Dark clouds are gathering again on the textile industry's horizon. No one seems to think the threatened storm may prove as disturbing as that which caught the industry off guard a year ago, but preparations are being made for "foul weather." In favor of a more orderly readjustment on the present occasion is the fact that signs of trouble have been promptly discerned and steps taken to prevent production excesses which undermined profits last year.

Judged by recent developments, a large section of the rayon weaving industry is curtailing operations. Major factors have announced shorter work weeks; that is, a reduction to five from six days. This is not a serious cutback, for except in unusual circumstances production on the sixth day of the week is not especially profitable because of higher labor costs related to overtime rates. If it should become necessary for weavers to cut back to four days a week, however, profit margins would be threatened to a greater extent.

Well informed observers are hopeful that no further slackening in production of grey goods may be necessary. This view is based on the belief that inventories in hands of converters, distributors and retailers of finished goods are not excessive in relation to prospective demand—unless there should be an unexpected slump in general business. Moreover, the industry is moving into a normal period of reduced operations. Hence, a slackening at this time is not unusual. This time of the year is "between seasons" in that spring apparel lines are beyond the mill stage and it still is too early for fabric buyers and retailers to be placing orders for autumn goods. In other words, second quarter results scarcely are expected to be typical of the rest of the year.

Retail trends in the next few weeks—especially Easter and early spring business—will be closely watched by textile manufacturers for indications to whether the current hesitation is likely to prove anything more serious than a normal digestion of gains recorded in the last nine months. Generally speaking, weaving mills and converters have been operating at a relatively high rate ever since last July—many on six-day weekly schedules which have enabled them to benefit from premium prices on spot deliveries. This sort of situation is evidence of hand-to-mouth operation among converters and suggests that inventories have not become unwieldy.

No Serious Weakness Indicated

So far as keen observers are able to judge at this time, the recent production curtailment is not regarded as evidence of serious weakness. Surveys indicate that inventories among converters—that is, mills which process grey goods and prepare fabrics for dress goods manufacturers—as well as at the retail level are far from excessive. Department store buyers and other outlets have maintained a cautious attitude in recent months for fear of adverse effects of the prolonged coal strike and other work stoppages caused by shortages of raw material or by labor trouble in other industries. Authorities contend that merchants have been overly cautious and that pre-Easter business may suffer more from lack of adequate stocks than from custômer resistance.

Decision of weavers to reduce production rather than force converters to accept grey goods on firm contracts is regarded as an encouraging development. It may avert more serious trouble later. Hence deliveries to converters are being delayed for as much as a month or six weeks. While this policy is destined to cut back sales for the second quarter to a lower level than had been anticipated and may temporarily harm earnings, third quarter business — if the lull proves only temporary, is likely to show up better than it would have been, had weavers insisted on holding converters to their contracts.

Another reassuring factor at present is the fact that weakness is less apparent in cotton goods than in rayon. This situation contrasts with that of early last year, when overproduction became evident first in cotton. The brighter outlook for cotton goods is attributable to the fact that raw materials have been relatively abundant and that lower prices for finished goods as a result of last year's slump created an unexpectedly good demand. Customer preference for cotton dresses and similar apparel that had shifted to rayon and nylon apparently is being recaptured by attractive pricing. In addition, cotton prices seem to have stabilized slightly above the Government loan figure. This suggests that raw material costs have declined as far as economically possible and that fibre costs are more likely to rise than to fall. Consumers of grey goods and of finished products are more willing to accept consignments under such circumstances, for they are less concerned over possibility of inventory losses.

Woolen and Worsted Lines

Somewhat similar, although less satisfactory, conditions prevail in woolen and worsted lines. Retail sales have been unsatisfactory, especially in men's wear. While much of the trouble in this respect has been the responsibility of distributors rather than goods producers, nevertheless signs of inventory excesses at the retail level and of consequent price-cutting tend to cloud the outlook for producers. This especially is true at present when all signs point toward higher wool costs for the autumn. Mills are encountering a reluctance on the part of cutters and clothing manufacturers to place orders for fall delivery, while their retail customers are evidencing distress in disposing of spring lines. So far as goods producers are concerned, however, operations this year promise to be more satisfactory than in 1949, when substantial losses were absorbed on goods produced in the first half of the year.

In men's wear a trend toward lightweight suits has been observed in recent years, and this has tended to increase sales of tropicals and similar summer apparel at the expense of the more profitable regular suitings. Moreover, unusually mild winters for the last two years have had an adverse effect on sales of overcoats. Consequently, it is feared that retailers may place orders more cautiously for winter apparel when the buying season opens shortly. In any event, clothing manufacturers are inclined to pursue a cautious policy. This situation presents problems for marginal mills, but tends to strengthen the competitive position of efficient and flexible producers. Hence from the investor's standpoint, it has become increasingly important to be discriminating.

Need for Discrimination

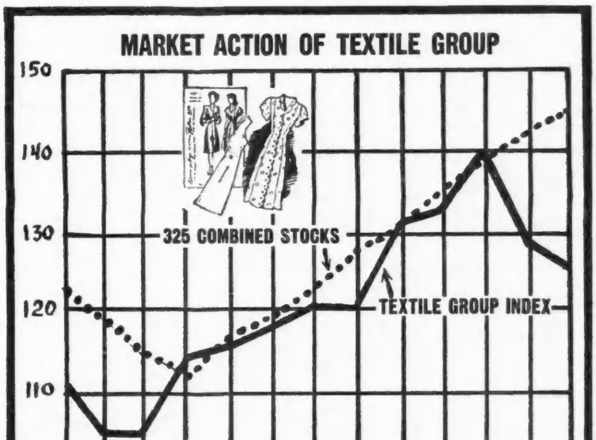
Necessity for distinguishing between strong, efficient manufacturers on the one hand and marginal concerns on the other is vital in all branches of textile manufacturing—as it is, of course, in other industries. A divergence in costs has become more pronounced than ever in the last few years while wages have been rising. Unionization of industry has weakened the competitive position of small mills which previously had enjoyed distinct advantages in production costs by reason of lower-than-average wage rates. Moreover, the large mills have ploughed back part of substantial war-time earnings into labor-saving machinery with the result that costs have been kept under control despite sharp increases in wage rates.

Labor union success in gaining wage increases comparable on a cents-an-hour basis with settlements in other industries has resulted in exceptionally large percentage boosts for textile workers. This is due to the fact that before the war, wage scales in textiles were abnormally low. A recent Labor Department compilation, for example, points out that in an analysis of thirteen occupations the greatest percentage increase was obtained by textile workers—namely, 57 per cent higher in 1949 than in 1939, even after adjustments to take into account reduced purchasing power of the dollar. The survey discloses that in textiles, average weekly income in 1939 was $16.84, whereas in 1949 the average textile worker had boosted his weekly income to $44.71. Adjusted for depreciation of purchasing power in the ten years, this 1949 pay envelope was equivalent to $26.42 a week.

That the worker's lot is so much improved as compared with conditions before the war appears to be a favorable factor now. Textile unions have shown a surprising willingness to renew contracts without raising wage rates. Settlements have been made on basis of minor "fringe" concessions in the matter of vacations and night work. While demands for pension programs may impose higher manufacturing costs, industry observers are hopeful that actual labor costs may not rise as fast in the coming year as for other major industries. If this prospect materializes, textile producers may gain an advantage which would tend to counteract adverse effects of curtailed production. In other words, manufacturers might not be compelled to raise selling prices, whereas this reassuring prospect is less evident elsewhere.

Longer Range Factors

Thus far this discussion has centered chiefly on immediate prospects for textiles and little allowance has been made for longer range influences. Such factors as growth in population and in purchasing power cannot be ignored, however, especially in an industry whose products are so intimately identified



Comprehensive Statistics Analyzing

Figures are in million dollars, except where otherwise stated.	American Viscose	American Woolen	Sidney Blumenthal	Burlington Mills	Cannon Mills	Celanese Corp.	Duplan Corp.
CAPITALIZATION:							
Long Term Debt (Stated Value)	....	$.8	....	$35.4	....	$80.1	$5.6
Preferred Stocks (Stated Value)	$22.3	$19.5	....	$28.7	....	$55.2	$.2
Common Shares (000 omitted)	2,039	969	359	3,980	2,074	5,514	904
TOTAL CAPITALIZATION	$51.0	$50.7	$4.8	$68.0	$51.8	$137.5	$8.0
INCOME ACCOUNT, for Fiscal Year Ended	12/31/49	12/31/49	12/31/49	10/1/49	12/31/49	12/31/49	5/31/49
Net Sales	$194.6	$132.1	$15.7	$263.4	$135.0	$171.2	$43.2
Depreciation, Amortization, etc.	....	$1.9	$.3	$5.0	....	$10.7	$1.2
Taxes	$13.4	$.5	....	$14.8	$6.1	$13.0	$2.0
Net Available for Interest	....	$1.5	....	....	....	$36.1	$5.4
Interest (Bonds and Long Term Debt)	....	$.02	....	....	....	$2.3	$.2
Preferred Dividend Requirements	$1.1	$1.0	....	$1.0	....	$3.0	$.01
Net Income	$20.2	$2.1	(d)	$18.2	$8.9	$20.6	$3.0
Operating Margin	16.7%	1.0%	(d)	13.9%	15.4%	20.5%	11.9%
Net Profit Margin	10.3%	(e)1.6%	(d)	6.9%	6.6%	12.0%	6.9%
Percent Earned on Invested Capital	10.5%	2.5%	Nil	14.4%	17.2%	13.3%	19.6%
Earned Per Common Share	$9.32	$1.18	(d)$.40	$4.31	$4.10	$3.19	$3.34
Current Price of Common	$65.00	$22.00	$8.00	$18.00	$45.00	$30.00	$11.00
Dividend	$4.00	$3.50	$.60	$1.50	$3.75	$2.40	(b)$.50
Dividend Yield	6.1%	16.0%	7.5%	8.3%	8.3%	8.0%	4.5%
Price-Earnings Ratio	6.9	18.6	....	4.1	11.0	9.4	3.2
INTERIM REPORTS	....	....	....	3 mos. 12/31/49	....	....	6 mos. 11/30/49
Net Sales	....	....	....	$71.5	....	....	$18.4
Operating Margin	....	....	....	(f)12.1%	....	....	(f)8.4%
Net Income	....	....	....	$4.5	....	....	$.9
Net Profit Margin	....	....	....	6.3%	....	....	5.2%
Earned Per Common Share	....	....	....	$1.08	....	....	$1.03
BALANCE SHEET, as of	12/31/49	12/31/49	12/31/49	10/1/49	12/31/49	12/31/49	11/30/49
Cash Assets or Equivalent	$71.0	$7.7	$.8	$51.3	$45.5	$45.2	$5.0
Inventories, Net	$28.1	$43.2	$3.3	$35.1	$28.9	$20.5	$5.0
Receivables, Net	N.A.	$22.3	$1.2	$32.2	$15.4	$16.7	$3.1
Current Assets	$118.1	$73.6	$5.4	$119.3	$90.0	$85.9	$13.2
Current Liabilities	$30.8	$16.1	$1.2	$23.8	$14.7	$16.5	$3.4
Net Current Assets	$87.3	$57.5	$4.2	$95.5	$75.3	$69.4	$9.8
Fixed Assets, Net	N.A.	$30.4	$4.2	$61.2	$18.5	$153.2	$10.7
Total Assets	$222.3	$105.7	$9.8	$185.7	$109.3	$254.8	$24.5
Book Value Per Share	$82.88	$71.47	$23.83	$24.34	$45.45	$18.58	$16.71
Net Current Asset Value Per Share(a)	$31.87	$59.34	$11.71	$7.65	$36.35	....	$4.72
Cash Asset Value Per Share	$34.70	$7.94	$2.41	$12.90	$22.00	$8.22	$5.40
Current Ratio	3.8	4.5	4.5	5.0	6.1	5.2	4.0
Inventories, % of Sales	14.4%	32.7%	21.4%	13.3%	21.4%	12.0%	11.6%
Inventories, % of Current Assets	23.8%	58.7%	61.4%	28.9%	30.2%	23.9%	38.0%
Depreciation, % of Gross Fixed Assets	....	3.4%	3.4%	5.9%	....	4.8%	7.3%

(N.A.)—Not available.
(a)—After deducting prior obligations.
(b)—Plus stock.
(c)—Colonial Mills name changed to Robbins Mills, Inc.

with one of the most important human wants, namely, clothing. Expenditures on apparel tend to follow closely the ups and downs of national disposable income. In good times, the proportion of the family budget allotted to wearables expands a trifle and in periods of unemployment, funds spent on clothing tend to shrink a bit. But year in and year out, the average fits fairly closely to between three and four per cent of national income.

With disposable income approximating $200 billion annually, normal purchases of apparel might be expected to approximate $7 billion. This is a substantial sum and seems more likely to increase than to diminish. As a matter of fact, because families in so-called lower income brackets have experienced greatest improvement in earning power, their expenditures for apparel have tended to show disproportionate gains.

Not only has the market for textiles enlarged on a dollar basis — due partly to price increases — but in actual physical volume, consumption has grown in proportion to an exceptionally sharp rise in population. Improvement in living standards has found reflection in larger average expenditures on clothing. Economists lean to the view that if food costs should decline, it would be logical to look for a larger share of disposable income to be devoted to wearing apparel.

Important Internal Changes

Another factor having a bearing on the industry's longer term prospects that must be considered in appraising securities is the fact that a sizeable proportion of its productive facilities has fallen into strong hands in the last decade. Large wartime profits were utilized by many concerns to enlarge plants and to acquire additional units. In some instances producers of raw materials expanded opera-

Position of Individual Textile Companies

Goodall-Sanford	Industrial Rayon	Lowenstein & Sons	Pacific Mills	Pepperell Mfg.	Rayonier	Reeves Bros.	Robbins Mills (c)	J. P. Stevens	Textron	United Mer. & Mfg.	Wyandotte Worsted
....	....	....	....	....	$14.0	....	$1.4	....	$1.8	$10.0	....
$4.1	....	$6.9	....	....	$15.6	....	....	....	$9.9	....	....
555	1,594	1,027	915	486	993	1,137	834	3,460	1,132	4,280	600
$9.6	$1.6	$8.0	$22.7	$9.7	$30.6	$.6	$18.0	$51.9	$12.3	$14.2	$3.0
6/30/49	12/31/49	12/31/49	12/31/49	6/30/49	12/31/49	6/30/49	11/30/49	10/31/49	12/31/49	6/30/49	11/30/49
$44.8	$49.6	$102.9	$98.8	$65.3	$48.7	$61.4	$35.1	$277.5	$67.9	$216.8	$18.4
$.5	$1.5	$1.1	$1.5	$.7	$3.0	$.5	$.9	$3.9	N.A.	$2.6	$.2
$.8	$5.8	$3.4	$2.5	$.9	$3.3	$3.1	$2.2	$11.6	(e)$1.0	$5.4	$1.0
....	....	....	....	....	$10.1	....	$6.0	....	N.A.	$17.3	....
....	....	....	....	....	$.4	....	$.04	....	N.A.	$.6	....
$.1	....	$.3	....	....	$1.2	....	....	....	N.A.	....	....
$1.2	$9.5	$4.7	$3.8	$5.4	$5.9	$4.6	$3.7	$17.7	(d)	$11.4	$1.7
4.6%	30.0%	7.8%	6.7%	11.3%	20.8%	14.1%	16.6%	10.6%	(d)	7.8%	13.6%
2.7%	19.2%	4.6%	3.8%	8.4%	12.2%	7.6%	10.6%	6.4%	(d)	5.2%	9.4%
4.8%	18.3%	8.8%	6.2%	14.4%	13.5%	18.8%	14.1%	13.1%	Nil	12.9%	20.0%
$1.88	$6.01	$4.33	$4.16	$11.30	$4.75	$4.11	$4.47	$5.14	(d)$1.80	$2.67	$2.90
$13.00	$44.00	$23.00	$30.00	$55.00	$28.00	$13.00	$19.00	$31.00	$10.00	$12.00	$11.00
$1.37	(b)$3.00	$2.00	$3.50	$3.75	$2.00	$1.50	$1.00	$2.75	$1.00	$1.00	$1.50
10.5%	6.8%	8.7%	11.6%	6.8%	7.1%	11.5%	5.2%	8.8%	10.0%	8.3%	13.6%
6.8	7.3	5.3	7.2	4.8	5.8	3.1	4.2	6.0	....	4.5	3.7
6 mos. 12/31/49	....	....	....	....	....	6 mos. 12/31/49	3 mos. 2/28/50	3 mos. 1/28/50	....	6 mos. 12/31/49	....
$12.7	....	....	....	....	....	$26.0	$10.7	$67.0	....	$123.4	N.A.
(d)	....	....	....	....	....	(f)12.2%	(f)20.7%	(f)11.6%	....	N.A.	N.A.
(d)	....	....	....	....	....	$1.9	$1.3	$4.9	....	$5.5	N.A.
(d)	....	....	....	....	....	7.4%	12.5	7.3%	....	4.4%	N.A.
(d)$1.68	....	....	....	....	....	$1.69	$1.62	$1.42	....	$1.29	N.A.
6/30/49	12/31/49	12/31/49	12/31/49	6/30/49	12/31/49	6/30/49	11/30/49	10/31/49	7/2/49	6/30/49	11/30/49
$2.2	$30.0	$7.3	$5.6	$13.9	$7.2	$3.8	$4.7	$24.5	$8.1	$9.4	$2.6
$12.2	$6.9	$20.0	$26.4	$10.9	$7.6	$9.5	$6.3	$45.1	$14.7	$35.3	$2.5
$3.9	$5.1	$10.8	$10.8	$4.4	$5.6	$3.5	$4.6	$31.1	$4.2	$29.1	$1.5
$18.5	$42.2	$38.2	$42.9	$29.3	$20.6	$20.6	$15.7	$100.8	$29.6	$76.7	$6.9
$2.9	$8.8	$4.2	$9.3	$6.3	$6.5	$5.9	$5.2	$29.7	$7.9	$32.0	$.8
$15.6	$33.4	$34.0	$33.6	$23.0	$14.1	$14.7	$10.5	$71.1	$21.7	$44.7	$6.1
$8.6	$17.9	$19.3	$29.1	$15.3	$42.3	$9.7	$16.9	$63.4	$13.6	$38.7	$2.5
$27.8	$61.4	$59.2	$72.7	$45.3	$64.7	$31.0	$33.0	$166.6	$46.4	$120.2	$9.5
$37.30	$32.72	$45.41	$69.10	$78.12	$28.46	$21.75	$31.57	$39.42	$20.00	$17.45	$14.47
$20.65	$21.00	$26.18	$36.72	$47.24	....	$12.90	$10.90	$20.52	$8.73	$7.37	$10.19
$4.02	$18.82	$7.14	$6.24	$28.65	$7.37	$3.39	$5.68	$7.10	$7.17	$2.19	$4.47
6.0	4.8	9.1	4.6	4.6	3.1	3.4	3.0	3.4	3.7	2.4	8.6
27.2%	14.0%	19.4%	25.8%	16.7%	15.7%	15.6%	18.1%	16.2%	21.6%	16.3%	13.8%
65.8%	16.4%	52.0%	60.0%	37.4%	37.1%	46.4%	40.5%	44.7%	49.7%	46.1%	36.6%
3.3%	3.1%	4.6%	2.9%	3.2%	4.7%	3.3%	4.1%	3.8%	....	4.5%	3.5%

(d)—Deficit.
(e)—After tax adjustment credit.
(f)—Pre-tax margin.

tions by adding converting plants and apparel manufacturing concerns. A few even opened wholesale and retail distributing organizations.

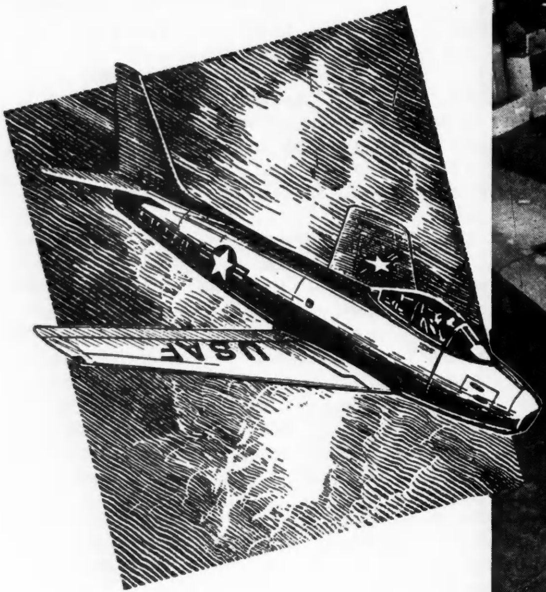
As a consequence, there are fewer marginal mills in the business and textile labor generally has been organized by leading unions. Hence, because labor rates are more nearly uniform throughout the industry, there is less threat of price cutting on the part of a few large low-cost producers. This is a stabilizing factor in that it minimizes the possibility of undermining profits. With principal producers prepared to cut back output when supplies begin to accumulate, chances of serious overproduction are lessened.

The manner in which a temporary period of excess output was corrected last year illustrates how quickly unfavorable conditions can be corrected. Cotton consumption declined in April last year to below 600,000 bales from almost 900,000 in March 1948, for a drop of about 30 per cent, and rayon filament deliveries slumped proportionately from the spring peak of 1948 to last summer's low point. In cotton goods, output for 1949 declined 10 per cent from 60 to 54 linear yards per capita. As a result of sharp curtailment of output while consumption was being rather well maintained, inventories were quickly removed.

1949 Earnings Decline

Earnings recorded wide declines from abnormally lush figures of 1948, as may be observed by reference to the comprehensive tabulation presented with this discussion. A breakdown of earnings statements shows that inventory markdowns in the first half accounted in large part for the disappointing showing. Results in the second half were reasonably satisfactory. Assuming that raw materials costs remain stable this year — (*Please turn to page* 48)

It now seems certain that Congress will approve a budget that will assure a stable aircraft procurement program this year and in 1951.



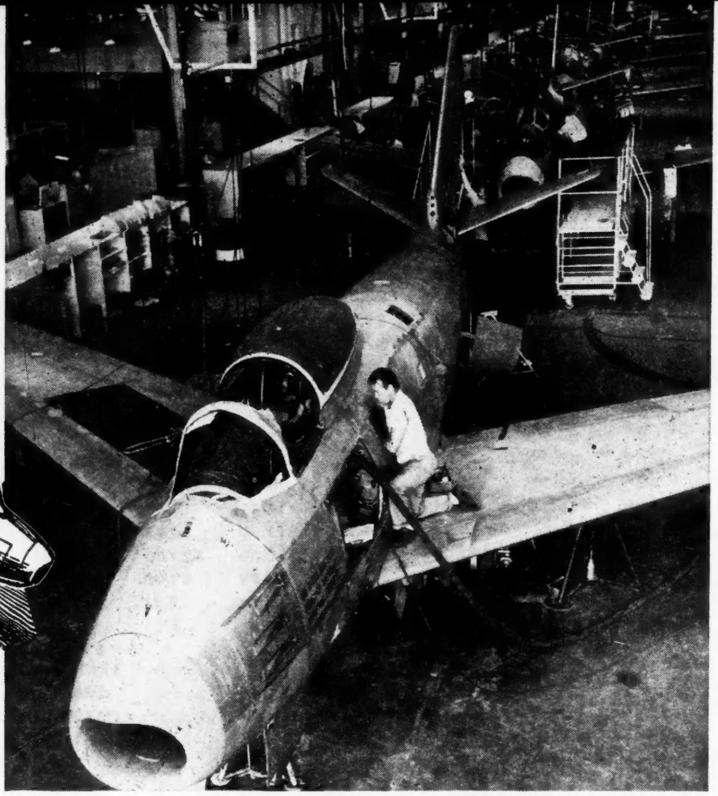


Photo by North American Aviation

New Potentials in AIRCRAFTS

By WARREN BEECHER

The 1949 annual reports of leading aircraft manufacturers reflect decidedly improved conditions in that volatile industry. For the second time since Pearl Harbor, the group has reverted from its normal status as a producer of commercial air transport to major reliance on large scale output of military equipment. With recognition of the predominant importance of the industry in the defense program huge sums appropriated by Congress have led to Federal order placements that promise high level activity by the better situated firms throughout 1950 and probably for another year or so beyond.

From an industry standpoint, this turn of affairs has been timely and welcome. Despite the fabulous conquest of the air for peacetime purposes, earlier estimates of postwar demand for private planes were grossly exaggerated, and the needs of commercial airlines have become increasingly satisfied, for a while at least. By 1947-48, heavy development costs and shrinking demand placed the industry with its back against the wall, what with sharply curtailed earnings and even red ink among some leading concerns. But marked recovery last year was quite general, frequently attended by substantial sales and earnings gains, while sizeable backlog orders at the end of 1949 lend confidence in well sustained operations in the current year. However, the experience and potentials of the leading concerns vary widely, due to high specialization and the nature of the business.

A factor that enhances the outlook for the industry in no small degree is that Washington for the first time has embarked on a farsighted program to overcome many of the operating handicaps from which the aircraft manufacturers seriously suffered. The relatively slow turnover characteristic of the industry, combined with frequent changes in design and excessive development costs, made the employment of mass production methods exceedingly difficult prior to last year.

Under current conditions, manufacturers can plan their schedules for a year or more ahead, enabling them to count on a smooth flow through their facilities that promotes more economical operations. Suppliers of parts have been surveyed and allotted contracts that further tend to stabilize production, not alone under the present speed-up but with an eye to immediate expansion in the event of war.

Increased Government stockpiling of many essential materials also should ease any shortages, thereby avoiding any interruption of operations. And more generous allowances have been made to compensate for basically expensive engineering and research costs.

Business Subject to Renegotiation

While military business still continues subject to renegotiation and no aircraft manufacturer will be allowed to profit unduly from Federal contracts, Washington has come to recognize that desirable margins must be maintained in order to assure

reasonable prosperity for the leading units. Despite this indication of improved liberality, though, the huge amounts involved and the flexibility of definitions in establishing allowable costs tend to create considerable uncertainty over the final determination of net earnings. In other words, neither company officials nor investors can confidentially count on the exactitude of reported interim earnings pending renegotiation of contracts.

Before appraising potentials of the industry for 1950 in more detail, it is essential to gain some understanding of its experience in 1949. For security reasons, the Government now measures the military performance of the group largely in terms of airframe pounds, although thus far this does not seem to have precluded availability of statistics couched in terms of complete units of various description. Last year approximately 28 million airframe pounds of military planes involving about 2600 units, were produced. This compares with about 25.1 million pounds and 2300 aircraft in the previous year.

Additionally, the industry delivered a smaller number of civilian planes in 1949 than in 1948, 165 civil transports contrasting with 263, and 3400 personal planes comparing with 7039 the year before. On a basis of airframe pounds, the comparison would be around 6.5 million pounds versus 10 million pounds. Regardless of the decline in civilian business, however, deliveries on military contracts were more than an offset, lifting the total value of planes, engines and propellers to an estimated $1.7 billion in 1949 from $1.45 billion the year before.

As regards 1950, it now seems fairly certain that Congress will approve a budget that will assure a stable aircraft procurement program this year and in 1951 as well. New contracts involving about $2 billion in fiscal 1951 should be placed for about 1383 Air Force planes and for 769 Navy planes. These estimates, however, fail to clarify delivery potentials in the current year or in 1951.

1950 Sales Prospects

Because of authorizations made in previous years, it is expected that manufacturers will bill 2789 planes to the Government in fiscal 1950 and at least 2317 in fiscal 1951. Beyond much doubt the figure for the latter will be raised when decisions on new order placements are reached in near term months. Over-all military sales by the industry in the current year should involve about three million more airframe pounds than in 1949, with consequent benefit to dollar volume and prospective earnings of the industry.

Of significance in appraising the outlook for production of civilian planes is the fact that unfilled orders for transports towards the end of 1949 shrank to 84 compared with 161 about a year earlier. Although the financial resources of the airlines have improved and many of their planes in use have become outmoded, it looks as if orders for new equipment will be relatively limited in the current year. Total production of civilian transports, accord-

Statistical Data on Aircraft Companies

	Order Backlog*	—Net Sales— 1949	1948	Operating Margin 1949 %	1948 %	—Net Per Share— 1949	1948	Div. 1949	Div. Yield‡ %	Price-Earnings Ratio†	Recent Price
	($ millions)										
Beech Aircraft	$11.6	$20.5 b	$24.1	7.0%	15.2%	$1.54	$3.69	$1.00 a	11.7%	5.5	8½
Bell Aircraft	......	11.8	15.3	N.A.	d	.47	.80 d	1.00	7.3	28.9	13⅝
Boeing Airplane	428.9	287.0 c	127.3 c	N.A.	8.1	4.08	1.59	2.00	7.2	6.7	27½
Cessna Aircraft	......	12.7 b	14.2	3.5	6.6	.43	.79	.25	6.0	9.8	4¼
Consolidated Vultee Aircraft	207.0	197.0	112.3	1.7	d	1.60	5.16 d	Nil	......	8.4	13½
Curtiss-Wright	132.7	128.5	111.7	2.0	7.1	.12	.46	1.00	11.7	70.8	8½
Douglas Aircraft	275.5	117.4	118.5	9.1	9.9	9.19	9.71	9.25	11.8	8.4	78
Fairchild Camera & Instrument	......	12.0	6.6	N.A.	.09	......	.43	.35	1.2	......	29⅛
Fairchild Engine & Airplane	80.1	48.1	30.7	N.A.	6.0	.68	.52	.35	6.1	7.1	5¾
Grumman Aircraft Engineering	135.3	59.9 c	41.0	N.A.	11.0	3.19	2.39	2.00	8.9	7.0	22½
Irving Airchute	......	2.0	.9	N.A.	d	......	.26 d	.25	4.4	......	5¾
Lockheed Aircraft	229.7	117.6	125.6	4.9	6.0	5.10	5.80	2.00	7.4	5.2	27
Martin (Glenn L.)	......	52.0	72.6	9.0	d	2.50 f	14.73 d	Nil	......	5.9	14⅞
North American Aviation	228.0	124.1 b	94.1	9.2	10.8	2.13	1.97	1.25	9.8	6.0	12¾
Northrop Aircraft	65.8	28.2 g	26.9	4.3	3.4	8.52 d	1.16	Nil	......	......	7⅞
Piper Aircraft	......	N.A.	3.6	N.A.	2.9	def. E	.82 d	Nil	......	......	1⅝
Republic Aviation	36.9	47.7	49.8	N.A.	5.6	.87	2.19	Nil	......	12.6	7⅝
Ryan Aeronautical	......	15.0	7.9	4.4	7.2	.91	.91	.10	1.7	6.3	5⅞
Solar Aircraft	10.8	N.A.	14.4 h	N.A.	12.6	2.50 E	2.50 h	.70	4.7	5.9	14¾
United Aircraft	365.0	N.A.	208.2	N.A.	6.8	3.00 E	3.06	2.00	7.3	9.0	27
Wright Aeronautical	59.8	N.A.	49.7	N.A.	4.50	2.16	2.53	5.00	6.0	38.6	83½

N.A.—Not available.
†—Based on 1949 actual or estimated earnings.
‡—Based on 1949 dividends.
(a)—Plus stock.
(b)—Year ended September 30, 1949.
(c)—1949 sales includes other income.
*—Latest available figures.
(d)—Deficit.
(E)—Estimated.
(f)—Before special adjustments, net income amounted to $4.52 per share.
(g)—Year ended July 31, 1949.
(h)—Year ended April 30, 1949.

ingly, will likely continue through 1950 at close to the reduced 1949 rate. With a view towards stabilizing the industry over the longer term, Congress is studying potentials for building a fleet of commercial transports that in case of emergency could be taken over for military purposes, but thus far such proposals have not met the approval of Government authorities.

Disappointing Trend in Sale of Personal Planes

The progressive decline in sales of personal planes from a peak of 34,407 in 1946 to only 3400 last year has created a serious problem for manufacturers specializing in their production. About the most encouraging element in the outlook is that the 1949 experience was probably the low mark and that the current year should bring some improvement. Factors supporting relative optimism are that business firms have learned the convenience of flying their own planes, that the Veterans Administration has eased restrictions on G.I. training programs, and the Civil Aeronautics Board has approved the use of single engine planes for feeder use. Finally, the fact that about 90,000 private planes are now in use suggests an increasing demand for replacements, although any uptrend may be quite moderate. Revenues from sales of parts, on the other hand, will likely expand more satisfactorily.

But by and large, the aircraft industry is in more of a transitional state than ever before. The development of jet engines, turbine propeller engines, guided missles, and the race towards stratospheric flying, has greatly altered and complicated the operations of the leading manufacturers and intensified their research activities. With almost complete emphasis on military production, however, output of all concerns in the field, from parts to airframe manufacturers, has been co-ordinated in a manner that strengthens the operating potentials of all units. For a time at least, heavy losses incurred by several prominent companies in developing civil transports have become a thing of the past, improving the outlook for 1950 earnings.

The appended statistical table, listing 21 companies, shows how broadly the experience of various firms varied in 1949, while indicated backlog orders

provide clues to expectancies in the current year, wherever these figures are available. The fundamentals and potentials of most aircraft differ so widely that for proper understanding, some discussion is essential to supplement study of the statistics we present. Hence we will comment briefly on a few of the more interesting situations.

Douglas Aircraft Company, one of the strongest and most successful in the group, reported sales of $117.4 million for the fiscal year ended November 30, 1949, versus $118.5 million in 1948. An increase of nearly $3 million in development expenses narrowed margins somewhat, so that net earnings last year slightly receded to $9.17 per share from $9.71 the year before. Backlog orders at the fiscal year-end rose to $275.5 million, 42 million more than a year earlier, and assure the company of capacity operations through 1951.

How substantially increased military production offset reduced output of civilian equipment is shown by a $32 million gain in the former and a $33 million drop in the latter. Parts sales of $19 million in 1949, while obviously substantial, were lower by $7 million compared with 1948, largely due to the end of the Berlin Airlift. Douglas Aircraft has benefitted from the popularity of its DC-6 transport planes, of which the number delivered or now on order totals 185. The company's balance sheet discloses current assets of $80.9 million, including cash of $16 million, compared with current liabilities of $23.1 million. Such a strong financial position enabled Douglas Aircraft to pay liberal dividends of $9.25 a share last year, and the bright outlook for 1950 suggests that interim payments and extras may total about the same in 1950.

Consolidated Vultee

Consolidated Vultee Aircraft Corporation pleased its shareholders in fiscal 1949 by operating profitably for the first time since 1945. Net earnings of $3.7 million or $1.60 per share last year contrasted sharply with a loss of $11.9 million or $5.16 a share in 1948. Had a change in accounting methods to be adopted in 1950 been in effect last year, net earnings would have been substantially higher. 1949 sales of $197 million included $167 million for the Air Force, $6 million for the Navy and $24 million for commercial customers. Backlog orders on November 30 amounted to $207 million, of which all but $1 million represented Government business.

While production of B-36s will continue to predominate in the current year, the company is active under Air Force and Navy contracts in developing two large flying boats powered with turbine propeller engines, besides a new jet fighter of radical wing design, the F-92A. Convair also is busy on production of parts and major assemblies for the Boeing B-50 bomber under a subcontract, and is active in the development of guided missiles. Virtually assured of high level volume for two years ahead, the earnings of Consolidated Vultee should continue to be fairly satisfactory, though gains will be limited by tight Government pricing policies. It is possible that during the current year a small dividend may be paid. An encouraging factor in 1950 as to earnings is that no less than $8 million losses carried forward from prior years can be applied to reduce taxes.

Credit must be given (*Please turn to page* 47)

★ ★ ★

Political and Economic News

AROUND THE ... WORLD ...

By JOHN LYONS

★ ★ ★

— GOLD PRICE TUMBLES IN FREE MARKETS

The price of gold in free (premium) markets was declining during most of 1949; about two weeks ago another sharp dip took place which carried the price of gold bullion in Europe's largest free market, Paris, to the equivalent of about $41 per ounce. Manila quoted gold bars at about the same time at $42 per ounce. In Hongkong and Beyrouth, the price was off to $39, and in Tangier, the sharpest and one of the best supplied markets, gold went down to the equivalent of about $38 per ounce with not much room to spare for a further fall.

On the other hand, the Alexandria market still sold gold bars at the equivalent of about $52 per ounce, and the price in Bombay was near $60. The prices for gold sovereigns and gold eagles were from 5 to 15 per cent higher. From Paris it was reported that, owing to the drop, speculators were having some difficulty in carrying gold on credit—a situation that was true recently also in Macao near Hongkong, once a heavy seller of gold to the Chinese.

As usual the drop in the price of gold has inspired another wave of rumors and speculations—some realistic and some more or less fantastic. Some people seem to think that the flight from gold is on, and that some $5 to $8 billion worth of hoarded gold (about half of that amount is estimated to be hoarded in Western Europe alone) is about to be thrown on the market.

According to other reports, the Russians are about to dispose of some $300 million worth of gold in free markets in order to get dollars. And mention of Russian gold almost automatically raises the question: How much gold do the Russians have? as if anybody besides the members of the Politbureau really knew! The "guesstimates" known to this writer range from $2.5 to $17 billion.

Actually the drop in the price of gold in premium markets can be explained quite simply and prosaically. There is more gold being offered in free markets than the present demand can absorb. In the estimate of the International Monetary Fund, about 6 million ounces of gold (worth about $200 million), representing about one-fourth of the world output of gold outside of the Communist-dominated areas, disappeared in 1949. Some of this gold hailed from South Africa, which has been disposing of about 100,000 ounces a month in free markets; more came from the Philippines, Mexico, Colombia, Ecuador, Chile, and Brazil—and since the beginning of 1949 also from the French African colonies and the Belgian Congo—which now allow their respective producers to dispose of all or a part of the new gold production in premium markets.

Thus despite the Monetary Fund's threats and protests, the stream of newly mined gold coming into the free markets has been swelling. But this is not all. Some of the older hoarded metal is also beginning to reappear.

The wealthy Chinese who were heavy buyers of gold less than half a year ago, are as refugees now drawing on their "gold savings" to pay their way. French farmers have been reported to be selling their gold to get new tractors and other farm equipment. And in India, the Reserve Bank, which had been out of the market since 1945, began to sell in Bombay gold that may have come from the fabulous hoards of the Nizzam of Hyderabad.

What has happened to the demand for free gold?

In general, it has fallen off as inflationary forces have been brought under control. With the prices more or less stabilized, paper money is no longer burning holes in people's pockets. The flight of capital from the Russian-dominated satellite countries has about ceased. The war-scare in the Near East has subsided, and buyers for new gold arriving in Alexandria and Beyrouth are harder to find. Last, but not least, some of the people who have been investing in gold, are turning to the New York stock market.

Unless there is a war scare, it is not difficult to foresee that gold prices in free markets will decline further. And those economists and other well-meaning but somewhat hasty people who have seen in the gold premiums abroad a sure proof of a higher intrinsic value of gold in terms of the dollar should ponder these latest developments.

A Courageous Step in Indonesia

On March 19, the new Republic of Indonesia took a courageous step which unquestionably has been hard on her people, but one which is bound to remove the last major obstacle to expansion of production and to the strengthening of her economy. Indonesia, strategically located in the path of communist expansion in Southeast Asia, won last December dominion status within the Netherlands-Indonesian Union. According to dispatches from Jokarta (Batavia), the Government devalued the currency by 50 per cent.

All bank accounts in excess of 1000 guilders were blocked, and the Government took the left half of all the notes in circulation (they were to be torn in half). The right half of the notes is now worth only one-half of their previous value. The guilder, which was nominally worth about 36 cents last September, is now officially worth only 13 cents. In the black market it is quoted as low as about 5 cents.

The placing of the Indonesian guilder, also known as a rupiah, on a more realistic basis was long overdue. During the Japanese occupation and the four-year struggle for independence, the once rich archipelago was flooded with paper money. Prices had been rising persistently, so that about a month or so ago they were some 14 times as high as before the war. The natives, lacking confidence in money, have not bothered to produce much beyond their bare necessities. This explains why the production of native "cash" crops such as cassava, various spices, pepper, kapok—to name just the most important ones—has remained but a fraction of what it used to be prior to World War II.

The situation has not been much better so far as certain plantation crops, such as sugar, tea, sisal, palm oil, tobacco, coffee and cinchona bark, are concerned. With internal production costs completely out of line with export prices, there was not much incentive for either local or foreign capital to be invested in the rehabilitation of plantations and processing mills (sugar centrals, drying sheds, etc.) even after the hostilities ceased and the Republican-held territory was thrown open.

This unsatisfactory situation was reflected in Indonesia's postwar trade. Although their value exceeded the prewar figures (largely because of much higher prices), exports were limited even in 1949 to practically four products: petroleum, rubber, tin, and copra, which in the prewar years accounted for about 55 to 60 per cent of all exports. The production of other commodities, which formerly contributed 40 to 45 per cent, has lagged behind. This has been especially true about such once great Indonesian exports as sugar, coffee, tea, tapioca, and tobacco.

Only time will tell whether the devaluation was drastic enough. Since most of the imports will cost at least twice as much, inflationary forces may reassert themselves. On the other hand, with trade goods becoming available, there will be great incentive for the natives to put their fields, gardens, and orchards into shape again. And there are signs that outside capital is beginning to be interested. The Export-Import Bank loan of $100 million is bound to be followed by an International Bank loan and private capital.

At any rate, thanks perhaps to the enterprising and thrifty Dutch who are still "the power behind the throne" to a much greater degree than meets the eye, Indonesia is putting her house in order and strengthening her economy. This is very encouraging, especially when compared with the situation in the Philippines. The Indonesians should be complimented on their willingness to learn, a characteristic which is bound to benefit not only them, but the whole Western World as well.

Point Four and Guatemalan Leftists

While some of the Latin American countries are moving toward the extreme Right as a result of wartime leftism, at least one of them is moving to the Left, partly as a result of 12 years of dictatorship and extreme rightism. This country is Guatemala—the land of eternal spring, and a favorite of American tourists—only a several hundred miles distant from our southern border. Guatemalan leftism, it has been said, is not Russian, but largely of the peculiar Latin variety, earnest and befuddled rather than cynical, and mixing Marxist ideology and Communist propaganda with anti-gringoism (anti-Americanism) and with the personal politicking traditional in the Latin world.

Guatemalan leftism nevertheless bears watching. Reportedly the country, due to the procommunist environment prevailing, has become an important Cominform base. Although the communist party is officially outlawed, communist sympathizers and fellow-travellers have been given free rein by the present president, Dr. Juan Jose Arevalo, a former history professor and an idealist and misguided social reformer as well. Dr. Arevalo's term will expire early next year. The new official presidential candidate, the present Minister of Defense, Col. Jacobo Arbenz, is even more radical and national-

Free Market Gold Prices

	Bómbay Rupees per tola	Bómbay Dollars per oz.	Hong-Kong HK $ per tael	Hong-Kong Dollars per oz.	Alexandria E £ per dirhem	Alexandria Dollars per oz.	Paris Francs per gram	Paris Dollars per oz.
Dec. 1946	101	$81	317	$51	162	$67	......	......
1947	103	83	303	50	172	71	530(a)	$54(a)
1948	113	91	296	48	153	63	805	79
Sept. 1949	114	92	330	49	154	64	615	59
Dec. 1949	114	63	291	41	169	47	583	52
Mar. 1950	112	62	......	36	......	40	......	39

(a)—Mid-February 1948.

istic. One of his planks with which he hopes to win over the electorate is a reform of land laws, permitting equal divisions of lands among the workers cultivating them.

Guatemala, with her natural resources, her nearness to U. S. markets, and her three million people, mostly humble, illiterate Indians with a very low standard of living, has been one of the countries most eligible for the Point Four type of financing. The country has also applied for a World Bank loan. Yet Guatemala has been doing everything in her power—politically and economically—to discredit the United States and to discourage the foreign investor.

For example, the United Fruit Company, which has invested more than $100 million in the country, felt that it was being discriminated against so much by Guatemalan leftist politicos and labor leaders that it has abandoned a $10 million development program, as result of which some 5,000 acres of banana land will return to jungle and some 4,000 workers will lose their jobs. The Guatemalan subsidiary of Electric Bond and Share is in danger of expropriation, and another company, the International Railways of Central America, with about $90 million invested in Guatemala, is faced with a wage dispute which has the obvious purpose of "getting the American imperialists and feudalists."

The discrimination against American companies which, incidentally, have been paying the highest wages in the country, ought to be thoroughly investigated before the American taxpayer's money is made available either as a World Bank loan or a Point Four loan.

Photo by Press Assoc.

Indonesia has won independence but still faces many serious problems.

Australian Up-valuation Dilemma

When last September the Canberra authorities allowed the Australian pound to follow sterling all the way down, their decision was severely criticised. Ever since, the Australian press, politicians, economists, and financiers have been engaged in a debate the outcome of which should in one way or other affect even our trade with the Antipode Commonwealth.

According to various polls, some 60 per cent of the Australians favor either full restoration of the Australian pound's parity with sterling, which would mean lifting it from the present $2.24 level to a $2.80 level—or a partial up-valuation to, let's say, a $2.50 level.

Some 10 per cent of the electorate is apparently definitely opposed to any change in the Australian pound-sterling relationship which has existed since the Great Depression days. The pound was lowered at that time by 20 per cent in order to give wool, meat, and butter producers, affected by the disastrous price decline, a break. Ever since the up-valuation debate started, there has been some buying of Australian securities here and in London. Also there has been a considerable intensification of the flow of capital to Australia, both for investment and speculation.

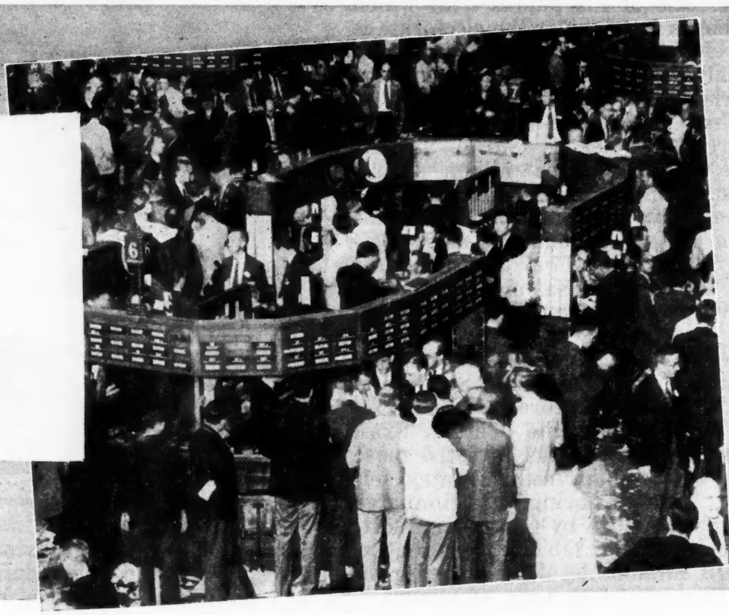
The people who are against any up-valuation of the Australian pound are, in the first place, the gold miners. Obviously their profits would be reduced, and gold mining shares, which have gone up more than 30 per cent since last September, would be affected. The Australian Farm Bloc is also opposed, for them too, it would mean lower profits. Finally, the manufacturers and most of the businessmen don't like it, the former because competitive British and American products would get in cheaper, and the latter are afraid of the effect of the up-valuation on their inventories.

Who is for the raising of the value of the Australian pound? The fixed income and working classes, in the first place. They hope that the up-valuation would either stop or at least act as a brake on the rapidly rising prices. Second, the Liberal Party, being pledged to bring down living costs. But the Liberals have a coalition partner, the Country Party, which, as the name should imply, is against any change in the currency rate. There the matter rests.

Australian prices have risen rather sharply—some 40 per cent—since the middle of 1948. The primary reason for this was the relaxation of wartime controls. The second reason has been the vigorous growth that the Commonwealth has experienced in the last few years. Immigrants—mostly British and displaced persons—have been arriving in large numbers, and secondary industries have been booming. Old factories have been expanded, and numerous new industries introduced.

All this has been inflationary, however, because some of it was financed on credit. The expansion is now to be directed into primary industries—steel, coal, heavy chemicals, and electric power generation, all of which have been outdistanced by the phenomenal growth of secondary industries. Up to the fall of the Labor Government last December, the forces behind the expansion were being suppressed. They have now been released, and while Australia should experience a great expansion of her economic activities, the danger of inflation will also be greater.

Other developments are feeding the inflationary fires: The inflow of outside capital, which has been encouraged by the election results and the up-valuation debate, and the rise of prices of certain Australian products, wool in particular. It has been estimated that the wool growers will get over $550 million during the current season, or more than three times as much as (*Please turn to page* 47)



FOR PROFIT AND INCOME

Pensions

Institutional demand for common stocks—deriving from educational and other endowment funds, insurance companies, pension funds, investment trusts, etc. — is a matter of considerable long-run importance to the stock market. But this supporting influence can also be exaggerated at any given time; and perhaps it is being exaggerated now. Thus, as compared with 9 months ago, there has been no great change in the over-all amount of institutional funds employed in stock investment, but the industrial average meanwhile has risen over 45 points. Institutional investment will not prevent sharp fluctuation in the stock market, pretty much as usual. Trustees are not going to rush out and buy a lot of stock merely because, under recently amended New York State law, it is legal for up to 35% of trust funds to be invested in stocks (both preferred and common).

Sellers

Institutions can be, and are, sellers of common stocks at times. Thus, some of the big endowment funds operate on a "formula-plan" calling for sale of a designated portion of stockholdings at 200 in the Dow-Jones industrial average, more at 225, etc., the proceeds of such sales being switched into high-grade bonds. The managers of other funds are expected to use discretion and to be prudent. That calls for reducing total risks in common stocks when they think the market is too high. Open-end trusts are probably the biggest institutional factor, buying around $275 million worth of stocks a year, on balance, at the 1949 rate. We say on balance, because holders of open-end trust shares can cash them in at any time; and there is always considerable cashing in going on. No doubt there will be times, when the next bear market scares the daylights out of people, when open-end trusts will be sellers on balance. Note that redemptions even of U. S. Savings bonds — certainly there is no more choice investment so far as safety is concerned—at times slightly exceed new sales.

Comparison

In eight months through February, customers' net debit balances of member firms of the New York Stock Exchange increased $270 million to $953 million. There is nothing alarming in this, for margin debt remains relatively small. However, the point we wish to make is that when the market is high and "acting well," the tendency is to exaggerate every favorable factor and to minimize the others. We do not say that the rise in margin debt is unsound; but the fact remains that any rise means that people to that extent are speculating increasingly on borrowed funds. Compared with its lowest point in early 1949, margin debt is up some $400 million. On that basis, the stock buying so financed has exceeded the net demand of the open-end investment trusts. It has probably been equivalent to a very sizable fraction of total institutional demand in this period.

Stocks

Where a major portion or all of

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1950	1949
Masonite Corp.	Feb. 28 Quarter	$2.42	$1.76
Caterpillar Tractor	2 mos. Feb. 28	1.08	.78
Consolidated Textile	6 mos. Mar. 4	1.46	.51
McLellan Stores	Year Jan. 31	3.98	3.60
Zenith Radio	Jan. 31 Quarter	4.21	2.11
Deere & Co.	Jan. 31 Quarter	2.27	2.09
Emerson Radio & Phonograph	13 weeks Feb. 4	1.39	1.01
Distillers Corp.-Seagrams	Jan. 31 Quarter	1.28	.97
Young (L. A.) Spring & Wire	6 mos. Jan. 31	5.38	3.72
Addressograph-Multigraph	6 mos. Jan. 31	3.17	2.55

a company's accruing pension funds are placed in its own stock, that is a supporting factor of importance and tends to make for at least as liberal a dividend policy as can be financially justified. Three such instances are American Telephone, Sears, Roebuck and United Fruit. However, qualifications are in order. First, in the nature of their differing businesses, these companies' shares would fluctuate less sharply than the general list in any event. Second, the pension factor has, of course, not prevented at least a normal degree of fluctuation.

Contrary

Oil stocks have had a good recent rally, acting better than the general industrial list for the first time since 1948, when they soared to levels well above both 1946 and 1929 highs. Even the present level, although much under the 1948 high, is above the 1946 top and very close to the 1929 peak. One possible justification for the current rebound is the prospect that present dividends of at least the larger companies will be adequately covered this year, despite a probable further fall in profits; and the fact that current yields are fairly good. Another reason is a strong technical position. "Problem" groups, out of favor for an extended period, at times rally well, as if to confound general expectation. The immediate market action does not change the fact that the industry faces a threat of world over-supply, and of further unsettlement of its already shaky price structure.

Another?

The gloom about motion picture stocks is very deep, and not without foundation . . . However, since so many people have been expecting the worst of them, maybe a rally is about due on the theory of coppering general opinion. One of these issues—Warner Brothers—seems at the moment to be pointing the way. It is possible that Hollywood will eventually discover some way of making money out of television, but that is not now in sight. Certainly, the industry is being hurt by video now; and probably it will continue to be for some time. Movie stocks are a sale on rallies; not a buy for rallies. In short, this column's suggestion is to leave quick-term operations to the professionals.

Zenith

Zenith Radio is the latest market sensation among the video stocks. Due to the light capitalization (492,000 shares), earnings per share can be on the spectacular side as long as the video boom lasts; but they can shrink just as rapidly as they are now expanding. Whether the indicated $1.50 dividend will be upped is a question, due to working capital needs. Possibilities in the company's "phonevision" system remain highly conjectural. Otherwise, it does not seem to have much chance of comparing with the video leaders in volume of business. The whirling advance in the stock may be in anticipation of a nearing split, or be due in part to a short squeeze.

Coal

Coal has been losing out to oil and natural gas. Such is the generality. However, for some important industrial uses there is no substitute for coal; and coal demand will remain large for indefinite years to come. The conditions created by the miners' union actually increase the relative strength of those coal mining companies which (1) have high-grade coal to work with; (2) are highly efficient; and (3) are economically near consuming outlets. One such is the lightly capitalized Pond Creek Pocahontas, with nothing ahead of its 339,494 shares of capital stock. Despite union-curbed output, 1949 earnings were a respectable $6.33 a share, against $10.67 in 1948. The all-time high in the stock was 48. It may startle you to be told that it was made recently, with the coal strike in progress, not in 1946 or 1937 or 1929. The present price is 43, at which the $4 dividend rate yields 9.3%. There are two reasons for the high yield basis. One is general investment dislike of the coal industry. The other is the fact that this company had an indifferent prewar record, skipping dividends in at least some years.

Island Creek

Island Creek is another unusually strong coal company, having paid dividends each year since 1912, and not less than a $1 rate under poor conditions. The present rate is $3, a new high level established in 1949, although earnings fell to $3.20 a share from 1948's $5.37. This stock's all-time high of 39¾ was recorded in the summer of 1948. It is currently 29, yielding over 10.3%. Despite the good record, it has sold as low as 8 in as moderate a bear market as that of 1937-1938.

Poor

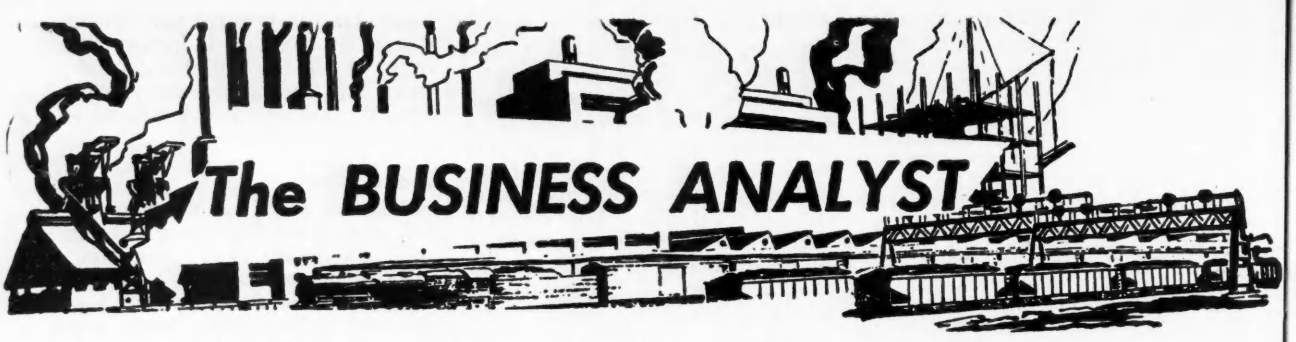
As usual, a minority of groups are under more or less pressure in what is still an uptrend market up to this writing; for, whatever the trend of the averages, it is a "market of stocks." Groups in which investors now seem more willing to sell than buy include copper stocks, lead and zinc stocks, miscellaneous mining and smelting stocks, printing and publishing, baking and milling, textiles and apparel, and motion pictures.

Chemicals

Chemical stocks have been under special demand in recent weeks, led by Allied Chemical on rumors of a coming split. Chemical volume and profits will make their usual better-than-average showing this year, but it will be unspectacular, compared with the behavior of the stocks. As for any good thing, you can pay too much for chemical stocks. Some are pretty richly priced now.

DECREASES SHOWN IN RECENT EARNINGS REPORTS

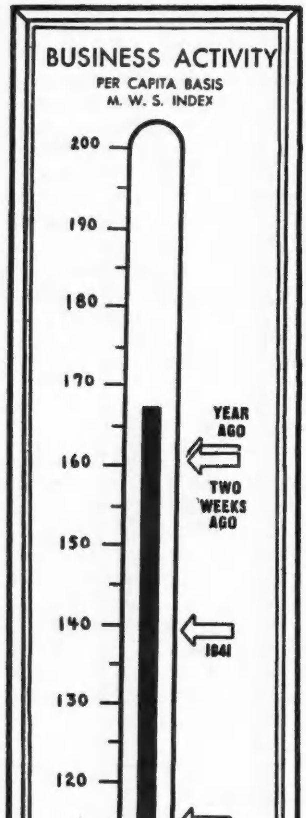
		1950	1949
Anderson, Clayton & Co.	6 mos. Jan. 31	$6.65	$7.30
Continental Motors	Jan. 31 Quarter	.14	.19
Stevens (J. P.) & Co.	Jan. 28 Quarter	1.42	1.96
Lerner Stores	Year Jan. 31	2.46	4.83
Dresser Industries	Jan. 31 Quarter	.07	1.74
Glidden Co.	Jan. 31 Quarter	.70	.85
Truax-Traer Coal	Jan. 31 Quarter	.61	1.53
International Harvester	Jan. 31 Quarter	.44	1.29
Lakey Foundry & Machine	Jan. 31 Quarter	.12	.75
Celotex Corp.	Jan. 31 Quarter	.20	.43



What's Ahead for Business?

By E. K. A.

Business data coming to hand confirm the favorable forecasts prevalent around the turn of the year. Industry has been set back somewhat, but not too much, by the coal and Chrysler strikes. The pick-up has been fast since the coal settlement and trade in the aggregate is holding fairly even with last year. Building and automotive activity is setting new records.



Reports of purchasing executives, as summarized by the National Association of Purchasing Agents, show that March was the second best month of the first quarter, very close to the high record set in January. Prospects for April are highly promising in reflection of acceleration of post-strike recovery, an influence that should be felt well into May or beyond, though a levelling off is likely in June and a somewhat more than seasonal decline in July.

To bolster this view, the Department of Commerce recently reported that manufacturers' new orders at the end of January stood at \$18.8 billion which was 12% over both December and January, 1949, totals. Subsequently it reported another rise in the order backlog for February, with manufacturers' new orders runing \$1.2 billion ahead of sales. It was the second consecutive month when orders had exceeded sales by such a margin, and about \$900 million of the excess was in durable goods other than automobiles. While sales of durables didn't register the normal January to February seasonal movement, the Department pointed out that the Chrysler strike pulled auto sales volume down substantially, as was to be expected. Non-ferrous metals, machinery except electrical, and building materials reported better than seasonal gains in sales.

Among soft goods, the Department noted that "considerably improved" sales in the petroleum, chemical and leather industries outweighed a decline in food sales. Other soft goods industries remained near their January rates. Meanwhile manufacturers' inventories went down \$200 million from their end of January level of \$31.1 billion, a normal seasonal development. A significant point is that a large percentage of the increase in new orders booked by manufacturers' accrued to those industries where orders are usually taken for future delivery. The current trend therefore will be reflected in future sales.

There has been some concern over the decline in new machine tool orders in February, with the order index dropping to 88.7 from 99.7 in January. But apart from the fact that the February figure was still 7.8 points above the 80.9 index registered for February 1949, it developed that most of the decline was in export business. Domestic orders were down only slightly, and this is bolstering hopes of a flattening out, if not reversal, of the recent downtrend in manufacturers' outlays for equipment. If so, it may well turn 1950 into a better year than many expect, but definite conclusions are hardly in order until the trend is confirmed by future developments. Meanwhile the ratio of unfilled machine tool orders to shipments was the highest since July 1948 when capital goods expenditures were runing at a peak. The ratio was 5.9 to 1 in February as against 5.7 to 1 in January.

More Money Needed to Finance Building Boom

A considerable source of strength is the unabated building boom, with 60% more "starts" in the residential field in the last three months than a year ago. According to the Commerce Department, the three-year boom has not yet filled the country's housing needs but the financing part is running into some trouble, temporarily at least. Both the Federal Housing Administration and the Federal National Mortgage Association have reached their limits on lending money. Having provided some \$12 billion in the past, they must now ask for additional appropriations from Congress. Chances are they will get the extra funds, but until they get it, there may be a "dry" period which may have a slackening effect on construction later in the year.

The auto industry meanwhile is roaring ahead with a new production record despite the Chrysler strike. First quarter output of cars and trucks is estimated at 1,640,000 units as against 1,394,270 last year, a gain of 17%. As a result of this showing, industry leaders are becoming more vocal in expressing optimism for the second half of the year.

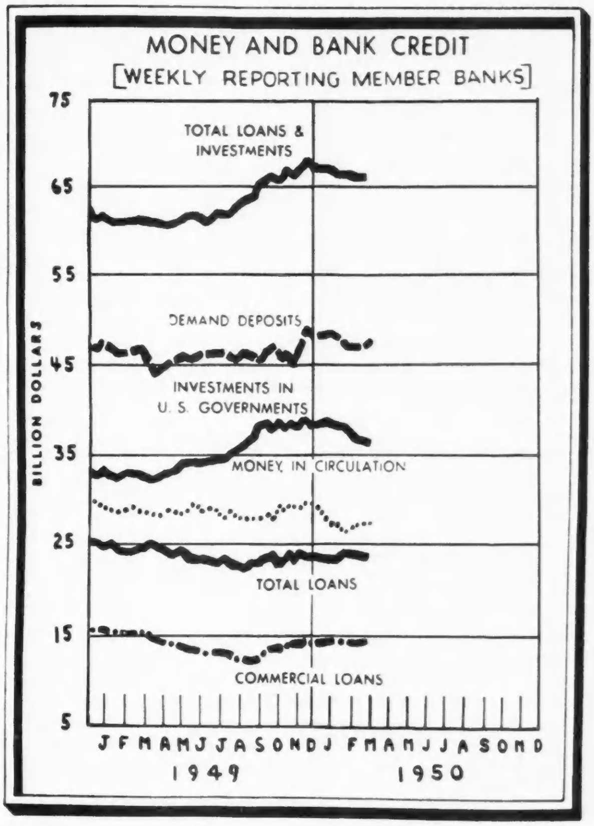
The Business Analyst

HIGHLIGHTS

MONEY AND CREDIT—With the short interest largest since May 19, 1932, our index of 325 active common stocks, along with the index of 100 high priced stocks, crept forward another notch during the fortnight ended March 25 to new 1949-50 highs; but the low priced stocks continued to lag. Radio and television shares again took the spotlight with an advance of our group index of 14%, to a new high since 1948. Of our 46 group indexes, 12 made new highs for various periods, as tabulated on the second page following. N. Y. bank stocks eased off to the lowest level in five weeks, despite estimates that first quarter earnings were equal to, if not actually better, than a year ago. Better grade corporate preferred stocks rose to the highest average level since October 11, 1947. Rail bonds rose fractionally, while foreign government dollar bonds, despite uncertain political conditons abroad, advanced to the best average prices since August 9, 1947. Reversing the recent down-trend, the bank-eligible Victory 2½s climbed back to the best price since January 21 under resumed purchases by the banks; but the restricted series continued to sag, easying off to the lowest price since last July 21. Cashing of income tax checks during the fortnight ended March 22 boosted the Treasury's cash balance by $1.28 billion to $5.64 billion, a new high for 1950. But a halt has been made in the reduction of the Government debt. With the lush period of heavy income tax collections now about over, the Treasury will soon be handing out about $100 million weekly more than it takes in from taxes, and so will be forced to resume deficit financing within a few months. Reserves held by member banks have shrunk $3.39 billion during the past twelve months, largely as a result of heavy sales of Government securities by the reserve banks as an anti-inflation measure, which helps to account for persistent weakness of the restricted Victory 2½s. Meanwhile demand deposits have expanded $1.05 billion and bank holdings of Government securities $3.77 billion in consequence of last year's deficit financing; but commercial loans are still off $1.2 billion. Inventories of unsold issues of new securities in dealers' hands, have mounted to $220 million, the largest in months. Securities issued by the International Bank have been the slowest movers, with nearly half of the latest issue still remaining unsold. On the other hand, private investors are showing increasing interest in 4% G.I. mortgage loans guaranteed by the Veterans Administration and offered by the Federal National Mortgage Association ("Fannie Mae"). Sales are now running at about $11 million weekly—three times the rate in January.

TRADE—Though merchants complain about the poor volume of pre-Easter sales, Department Store Sales in the fortnight ended March 18 were about on a level with a year ago in dollar total, which means perhaps 5% more in unit quantity, compared with a 3% decline for the year to date, on a dollar basis. Slow demand is reported for women's outer apparel, particularly rayon, and men's wear; but this appears to have been made up by larger sales of television sets, furniture and other items.

INDUSTRY—Swift recovery from depressing effects of the coal strike has lifted business activity to a new all-time high, in the face of expressions of concern over unemployment, founded upon conditons that existed several months ago. Most lines of business are now doing better than a year ago, while home building activity and automobile sales climb to record heights.



COMMODITIES—Commodity spot price indexes were up a little, and futures off a trifle, during the fortnight ended March 25. Political debate is still raging over how to go on coddling our resourceful farmers without losing the votes of other consumers and taxpayers.

—o—

Almost complete resumption of steel and coal production following settlement of the coal strike brought an unprecedented rebound of 3.6% in the nation's physical volume of **Business Activity** during the week ended March 18, lifting this publication's Business Index to a new all-time high, and widening to 4.6% the margin of increase over a year ago.

* * *

With all the publicity that has been accorded to rising **Unemployment,** it may be hard to believe that our country is at the moment experiencing a high degree of prosperity, but it should be noted that the findings of our Business Index, which are checked periodically for reliability, are only two weeks late in reaching our readers, whereas the most up-to-date of Government reports on business conditions—the one on unemployment—is about six weeks late in publication.

* * *

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Essential Statistics

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
MILITARY EXPENDITURES—$b (e)	Feb.	1.04	1.14	1.16	1.55
Cumulative from mid-1940	Feb.	393.0	392.0	378.3	13.8
FEDERAL GROSS DEBT—$b	Mar. 22	255.9	255.9	251.8	55.2
MONEY SUPPLY—$b					
Demand Deposits—94 Centers	Mar. 15	47.2	46.7	46.2	26.1
Currency in Circulation	Mar. 22	27.0	27.0	27.4	10.7
BANK DEBITS—13-Week Avge.					
New York City—$b	Mar. 15	9.07	9.12	8.79	4.26
93 Other Centers—$b	Mar. 15	12.90	12.87	12.82	7.60
PERSONAL INCOMES—$b (cd2)	Jan.	221	214	217	102
Salaries and Wages	Jan.	139	139	140	66
Proprietors' Incomes	Jan.	46	43	49	23
Interest and Dividends	Jan.	17	19	17	10
Transfer Payments	Jan.	19	13	11	3
(INCOME FROM AGRICULTURE)	Jan.	19	17	22	10
POPULATION—m (e) (cb)	Feb.	150.8	150.6	148.1	133.8
Non-Institutional, Age 14 & Over	Feb.	110.3	110.2	109.2	101.8
Labor Force	Feb.	63.0	62.8	61.9	57.5
Military	Feb.	1.37	1.41	1.51	1.89
Civilian	Feb.	61.6	61.4	60.4	55.6
Unemployed	Feb.	4.7	4.5	3.2	3.8
Employed	Feb.	57.0	56.9	57.2	51.8
In Agriculture	Feb.	6.3	6.2	7.0	8.0
Non-Farm	Feb.	50.7	50.7	50.2	43.8
At Work	Feb.	48.8	49.1	48.4	43.2
Weekly Hours	Feb.	41.1	40.9	41.5	42.0
Man-Hours Weekly—b	Feb.	2.01	2.01	2.01	1.82
EMPLOYEES, Non-Farm—m (lb)	Jan.	42.2	43.7	43.4	37.8
Government	Jan.	5.8	6.1	5.8	4.8
Factory	Jan.	11.5	11.5	12.2	11.7
Weekly Hours	Jan.	39.8	40.0	39.5	40.4
Hourly Wage (cents)	Jan.	141.8	141.0	140.5	77.3
Weekly Wage ($)	Jan.	56.44	56.40	55.50	31.23
PRICES—Wholesale (lb2)	Mar. 21	151.7	152.0	158.3	92.5
Retail (cdlb)	Jan.	183.8	184.4	191.5	116.2
COST OF LIVING (lb3)	Jan.	166.9	167.5	170.9	100.2
Food	Jan.	196.0	197.3	204.8	113.1
Clothing	Jan.	185.0	185.8	196.5	113.8
Rent	Jan.	122.6	122.2	119.7	107.8
RETAIL TRADE —$b					
Retail Store Sales (cd)	Feb.	9.19	9.51	8.92	4.72
Durable Goods	Feb.	2.96	3.05	2.59	1.07
Non-Durable Goods	Feb.	6.23	6.46	6.33	3.65
Dep't Store Sales (mrb)	Jan.	0.59	1.37	0.64	0.42
Retail Sales Credit, End Mo. (rb2)	Jan.	9.67	10.15	7.83	5.46
MANUFACTURERS'					
New Orders—$b(cd) Total	Jan.	18.8	16.8	16.9	14.6
Durable Goods	Jan.	8.6	7.0	6.7	7.1
Non-Durable Goods	Jan.	10.2	9.8	10.2	7.5
Shipments—$b(cd)—Total	Jan.	17.3	17.2	17.6	8.3
Durable Goods	Jan.	7.3	7.2	7.4	4.1
Non-Durable Goods	Jan.	10.0	10.0	10.2	4.2
BUSINESS INVENTORIES, End Mo.					
Total—$b (cd)	Jan.	53.4	53.3	58.3	28.6
Manufacturers'	Jan.	31.1	31.1	34.6	16.4
Wholesalers'	Jan.	9.1	9.1	9.6	4.1
Retailers'	Jan.	13.2	13.1	14.1	8.1
Dept. Store Stocks (mrb)	Jan.	1.9	1.9	2.0	1.4
BUSINESS ACTIVITY—1—pc	Mar. 18	167.0	163.1	162.5	141.8
(M. W. S.)—1—np	Mar. 18	194.6	190.1	186.0	146.5

PRESENT POSITION AND OUTLOOK

(Continued from page 39)

The most recent report on **Employment** was for the second week of February, during the coal strike. The next report, for the second week in March, will not reflect the full effects of the ensuing sharp rise in coal and steel production. Not until well into May, when the Census Bureau's employment report for April is issued, will the findings of our Business Index be confirmed by "news" of a gratifying rise in employment and decline in unemployment.

* * *

More up-to-date information on general business conditions may be obtained by scanning reports from leading industries which enter into computation of our **Business Index.** These are gathered and published weekly. Electric power output, for example, is now at a new all-time high; car loadings have just topped the year-ago level for the first time (except for the week ended December 24) since the week ended April 9, 1948; lumber and paperboard production have been running for some time well ahead of the year earlier.

* * *

Among other leading industries, sales of **Automobiles** last month, despite the long strike at Chrysler plants, were the largest for any March on record.

* * *

Record construction activity has sparked a 10% increase over last year in cement shipments and sales of furniture at retail. Orders booked by **Furniture** makers in February were 44% ahead of the like month last year.

* * *

Mr. Ewan Clague, chief of the Bureau of Labor Statistics, declares that **Home Building** this winter has been the "most spectacular" in history. New dwelling units started in January and February were 60% ahead of the first two months of last year. He adds that new homes will have to be provided for several more years at the rate of more than a million annually to wipe out the housing shortage. If so, this will serve to cushion the severity of our next business recession.

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Prospects are beginning to brighten for the **Petroleum** industry with approach of the season for expanding consumption of gasoline. The first time in months, in response to suggestions of prospective purchasers,

and Trends

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
INDUSTRIAL PROD.—1—np (rb)	Jan.	183	180	191	174
Mining	Jan.	131	132	149	133
Durable Goods Mfr.	Jan.	210	204	227	220
Non-Durable Goods Mfr.	Jan.	179	175	175	151
CARLOADINGS—t—Total	Mar. 18	726	708	608	833
Manufacturers & Miscellaneous	Mar. 18	337	329	350	379
Mdse. L. C. L.	Mar. 18	85	84	95	156
Grain	Mar. 18	42	40	47	43
ELEC. POWER Output (Kw.H.) m	Mar. 18	6,015	5,936	5,496	3,267
SOFT COAL, Prod. (st) m	Mar. 18	13.3	13.2	3.0	10.8
Cumulative from Jan. 1	Mar. 18	71	58	117	446
Stocks, End Mo.	Jan.	37.0	45.1	67.8	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	Mar. 18	4.8	4.8	5.2	4.1
Gasoline Stocks	Mar. 18	135	135	127	86
Fuel Oil Stocks	Mar. 18	42	45	59	94
Heating Oil Stocks	Mar. 18	43	46	50	55
LUMBER, Prod. (bd. ft.) m	Mar. 18	748	704	618	632
Stocks, End Mo. (bd. ft.) b	Dec.	7.3	7.3	7.4	12.6
STEEL INGOT PROD. (st) m	Feb.	6.78	7.93	7.48	6.96
Cumulative from Jan. 1	Feb.	14.7	7.93	15.7	74.7
ENGINEERING CONSTRUCTION AWARDS—$m (en)	Mar. 23	177	213	181	94
Cumulative from Jan. 1	Mar. 23	2,336	2,159	1,743	5,692
MISCELLANEOUS					
Paperboard, New Orders (st) t	Mar. 18	194	218	151	165
U. S. Newsprint Consumption (st) t	Feb.	456	448	401	352
Do., Stocks (mpt), End of Month	Feb.	591	622	669	523
Natural Rubber Consumption (lt) t	Jan.	60.2	52.9	50.2	54.3
Do., Synthetic	Jan.	33.9	31.8	37.1	0.5
Pneumatic Casings Production—m	Jan.	6.8	6.3	5.9	4.0

PRESENT POSITION AND OUTLOOK

the Texas authorities have authorized an increase in permissible crude output for that state. And for the first time this year, refinery runs — also a component of our Business Index—are again above the year-ago level.

* * *

Abruptly reversing last years' downtrend, **New Orders** booked by manufacturers picked up briskly in January to a total 12% above the like month last year. Orders for durable goods jumped to 27% above last year; but for non-durables, in which a rebound had already spent its force, the gain over a year ago was less than 1%. Backlogs of unfilled orders for durable goods at the end of January, however, were still 20% lower than a year earlier when orders were pouring in much faster than they could be filled. Manufacturers' shipments in January were off a little from a year earlier.

* * *

Personal Income received in January, thanks largely to G.I. insurance refunds, was about $4 billion, or 2% ahead of January of last year; but income derived from agriculture was off 13%. Total **Retail Sales** in February were 3% above last year, with durable goods up 15% and nondurables off 1.6%. Automobile sales were up 20%.

b—Billions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept., seasonally adjusted monthly totals at annual rate, before taxes. cd1b—Commerce Dept. (1935-9—100), using Labor Bureau and other Data. e—Estimated. en—Engineering News-Record. 1—Seasonally adjusted Index (1935-39—100). lb—Labor Bureau. lb2—Labor Bureau (1926—100). lb3—Labor Bureau (1935—100). lt—Long Tons. m—Millions. mpt—At Mills, Publishers, and in Transit. mrb—Magazine of Wall Street, using Federal Reserve Board Data. np.—Without Compensation for Population growth. pc—Per Capita Basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, Instalment and Charge Accounts. st—Short Tons. t—Thousands. *—1941; November, or Week ended December 6.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

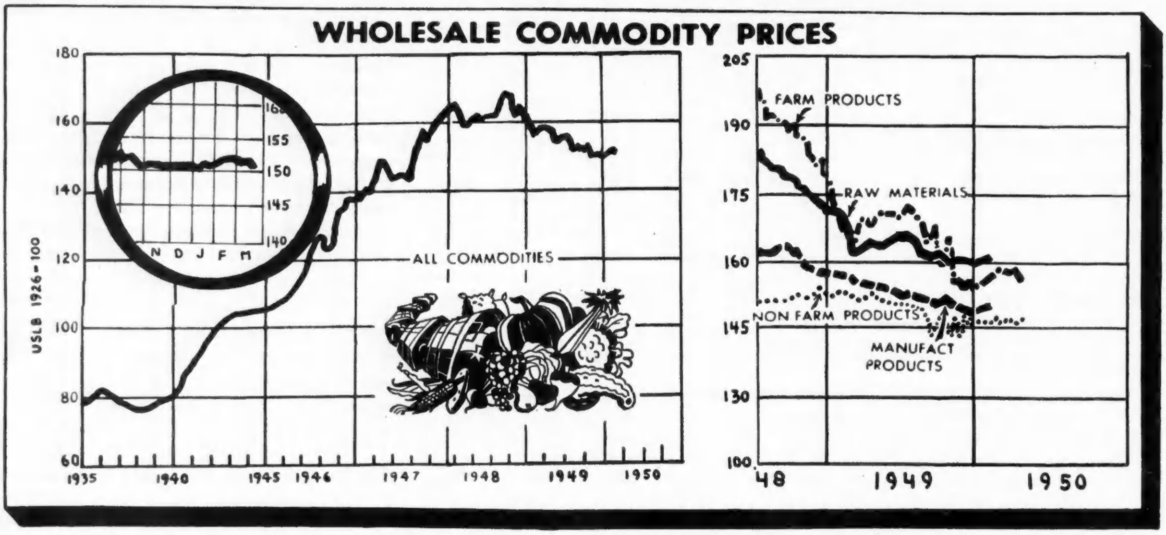
No. of Issues (1925 Close—100)	1949-50 Indexes High	Low	Mar. 18	Mar. 25
325 COMBINED AVERAGE	143.4	108.0	143.1	143.4A
4 Agricultural Implements	207.5	162.1	195.8	198.2
10 Aircraft (1927 Cl.—100)	201.0	138.2	201.0C	200.7
6 Air Lines (1934 Cl.—100)	517.1	366.1	494.1	490.1
7 Amusement	104.4	75.7	93.5	95.0
10 Automobile Accessories	210.9	145.2	208.8	210.3
12 Automobiles	31.5	21.3	31.0	30.8
3 Baking (1926 Cl.—100)	23.3	18.1	22.9	22.2
3 Business Machines	276.5	209.0	276.5A	273.3
2 Bus Lines (1926 Cl.—100)	176.4	118.3	176.4	172.7
5 Chemicals	273.7	212.7	266.1	267.2
3 Coal Mining	19.2	11.2	13.3	13.0
4 Communication	48.4	31.8	45.3	47.9
9 Construction	63.6	47.4	63.0	62.4
7 Containers	326.3	240.7	323.2	322.6
9 Copper & Brass	95.8	67.4	81.5	80.3
2 Dairy Products	78.2	53.3	76.7	78.2C
5 Department Stores	61.2	49.2	58.2	56.1
6 Drugs & Toilet Articles	202.8	141.6	200.6	199.5
2 Finance Companies	352.1	246.1	350.2	343.8
7 Food Brands	180.9	146.0	179.2	179.8
2 Food Stores	108.0	58.5	105.0	103.7
3 Furnishings	78.8	54.7	76.1	75.5
4 Gold Mining	795.1	566.3	679.7	693.9

(Nov. 14, 1936 Cl.—100)	High	Low	Mar. 18	Mar. 25
100 HIGH PRICED STOCKS	90.89	70.88	90.17	90.89A
100 LOW PRICED STOCKS	170.03	119.71	168.13	167.98
5 Investmenr Trusts	75.1	53.9	74.6	74.5
3 Liquor (1927 Cl.—100)	841.8	602.9	834.5	818.3
11 Machinery	155.1	115.9	152.0	151.2
3 Mail Order	112.5	87.1	107.2	108.9
3 Meat Packing	94.3	63.3	94.3A	92.8
12 Metals, Miscellaneous	158.1	122.0	146.3	142.2
4 Paper	42.2	27.9	42.1	42.2A
30 Petroleum	259.6	207.1	255.1	259.6A
27 Public Utilities	153.8	102.4	152.6	153.8C
5 Radio (1927 Cl.—100)	29.2	13.6	26.4	29.2A
9 Railroad Equipment	50.7	36.5	45.8	43.9
24 Railroads	24.9	17.5	24.3	24.9A
3 Realty	33.2	21.4	31.7	32.0
3 Shipbuilding	153.1	120.0	149.0	153.1C
3 Soft Drinks	391.6	298.2	373.7	361.9
15 Steel & Iron	106.5	77.0	105.1	105.0
3 Sugar	53.6	39.8	52.1	52.2
2 Sulphur	344.1	233.8	344.1T	343.1
5 Textiles	139.9	100.9	125.6	120.7
3 Tires & Rubber	37.2	26.6	36.8	37.2B
6 Tobacco	88.2	67.1	88.2C	87.1
2 Variety Stores	351.6	308.3	347.4	351.2
19 Unclassified (1948 Cl.—100)	123.0	93.2	121.2	120.5

New HIGH since: A—1948; B—1947; C—1946; T—1928.

Trend of Commodities

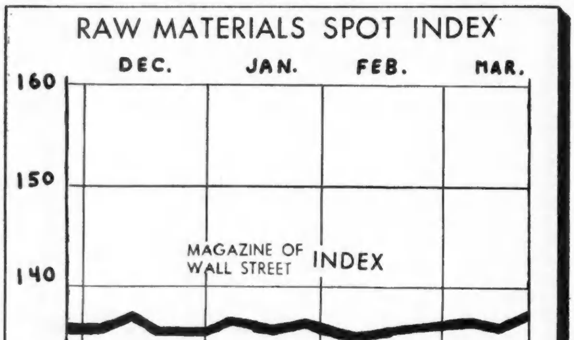
Though commodity futures indexes were off a bit in the fortnight ended March 25, and spot prices firmed a little, cotton moved counter to the trend in both markets. According to the Labor Bureau's daily index of spot prices for 28 basic commodities, the average is now about 4% lower than a year ago, domestic commodities have declined nearly 7%, whereas foreign products are off less than 1%, despite currency devaluations. It is also noteworthy that Government supported prices for farm products are still up 5% on the year; whereas much-maligned private enterprise has allowed industrial products to decline 16%. Cotton consumption by textile mills in February was around 14% larger than a year earlier. For rayon, the gain was somewhat larger; but clothing sales at retail have not been keeping pace with production, and prices are being shaded, particularly for rayon. Lead has been cut another half cent since our last issue; but zinc advanced a quarter cent. Tin has risen three cents since the R.F.C. relinquished control of the market. The rise in zinc has been sparked by increased demand from steel galvanizers since the coal strike was settled. Shipments of slab zinc in February were the largest for any month since November, 1948. During the past 18 months, the U. S. has produced about $7.5 billion more farm products than it has consumed or sold. The Government now holds about $4 billion worth after giving away nearly $3 billion of the surplus. Speaking of the Government's perennial bogey, the "greedy middleman," New York City's Welfare Department has discovered that Uncle Sam's "free" spuds cost nearly twice as much as in commercial markets.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES

Spot Market Prices — August, 1939, equals 100

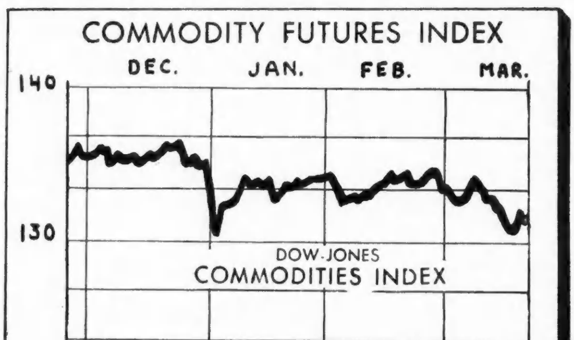
	Date Mar. 27	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
28 Basic Commodities	248.0	246.1	247.9	247.7	246.5	256.7	156.9
11 Imported Commodities	250.4	248.1	250.5	256.4	244.4	251.3	157.3
17 Domestic Commodities	246.4	244.9	246.3	242.3	247.8	260.3	156.6
7 Domestic Agriculture	306.1	305.6	304.6	298.3	294.6	291.8	163.9
12 Foodstuffs	310.2	306.9	307.1	306.5	290.2	280.4	169.2
16 Raw Industrials	220.0	218.8	220.9	222.8	227.9	253.8	148.2



14 Raw Materials, 1923-25 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1950	1949	1947	1945	1941	1939	1938	1937
High	137.1	161.5	164.0	95.8	85.7	78.3	65.8	93.8
Low	134.2	134.9	126.4	93.6	74.3	61.6	57.5	64.7



Average 1924-26 equals 100

	1950	1949	1947	1945	1941	1939	1938	1937
High	135.15	139.28	175.65	106.41	84.60	64.67	54.95	82.44
Low	131.21	122.45	117.14	93.90	55.45	46.59	45.03	52.03

Keeping Abreast of Industrial and Company News

At a cost of more than $10 million, **Scovill Manufacturing Company** has placed in operation the world's largest modernly equipped continuous strip mill. Through integration of flat-metal casting with cold rolling equipment, the company can now produce by this method the heaviest coils in the brass industry, all with uniform structural soundness and creating substantial operating economies.

Few concerns last year experienced such an insatiable demand for their products as **Scott Paper Company.** Although plants of this enterprise operated at full capacity throughout 1949, with paper machines generally running on a weekly- seven-day schedule and with output expanding 10.5% above 1948, deliveries at the year-end were considerably short of customer requirements. Small wonder that sales and earnings of this 70-year-old concern reached new peaks.

Continued good management of **Goodyear Tire & Rubber Company** has been assured for another year by the re-election of **P. W. Litchfield** as board chairman and chief executive officer. Mr. Litchfield has been chief executive officer of Goodyear since 1926 and has served continuously as a director of the company.

South America has received the first commercial shipment of radioactive material by an American pharmaceutical firm. Gold irradiated in the Oak Ridge atomic pile was rushed by air to **Abbott Laboratories** for processing and thence to Cali, Colombia, for treatment of a malignant tumor. Unlike radium, this material may be used as a direct injection to kill tumor cells. Irradiated gold, though, "decays" so fast that within three days only one-half of the original radioactivity remains, hence the need for super-speedy processing and transportation.

The range of uses for Nylon is expanding so rapidly that there is no telling how far it may reach. **E. I. du Pont de Nemours** and its customers surprised visitors to the Fourth National Plastics Exposition in Chicago by exhibiting such interesting items as gears for eggbeaters, dome light lenses for automobiles, mechanical parts for calculating machines, bearings for textile machinery, bristles for brushes, and hair for dolls—all formed from Nylon. Use of this product for parachute ropes, clothes lines and shirts has seemed quite natural in view of its popularity as a hosiery material, but its adaptation in many unrelated fields has awakened considerable amazement. Hardly less interesting has been du Pont's development of lawn grass seeds in "galoshes and overcoats." By coating these tiny seeds with a non-metallic, organic sulfur compound, 46½% more healthy grass results.

The prosperous population of Caracas, Venezuela, will soon be thronging the aisles of **Sears, Roebuck's** first store in that country, and the third in South America. Last year the company opened two units in Brazil. All of these new outlets are large and highly modernized, the one in Caracas having 60,000 square feet of selling space, a 500-car parking area, a restaurant and a service station. Popular response to these stores is great because they not only provide substantial local employment and opportunity to purchase many American goods, but also make a point of handling a long line of locally produced merchandise.

The technicians **of General Electric Company** have achieved an improvement in home refrigerator manufacture that may establish a new trend in the industry. To overcome a common source of service troubles arising from the use of door latches, the company has developed self-sealing magnetic doors that close almost without sound and form a tight seal with the cabinet. In other words, the equipment is latchless. Another innovation is an ice tray that permits ready removal of a single ice cube or as many as may be desired.

In quite another field, **General Electric** seems about to reap the fruits of extensive research, by developing a new silicone solution for keeping water out of concrete and cinder blocks, porous stucco and sandlime brick. Manufacture of this new material, called Stopall, will be made by Stopall Waterproofing Manufacturers, Inc. of Kalamazoo, Michigan. Widespread consumer acceptance seems well assured as the most rigorous tests have fully established the merits of the product which satisfies a long felt want.

The **First Boston Corporation** has announced the appointment of **Louis E. Minugh** as manager of the advertising department, with headquarters in New York. Mr. Minugh has been associated with the corporation for more than fifteen years and thus should fit easily into his new groove.

Study of air currents over the Atlantic Ocean and adoption of flexible route planning has saved **Pan American World Airways** more than half a million dollars in the last two years. Pan American discovered, surprisingly enough, that by allowing its planes to drift when beam winds arose, rather than holding the craft to a rigid course, it could save more than half an hour's flying time from former schedules between New York and London. The company's record of 8 hours and 55 minutes between these two points still stands, due to this method of putting the winds to work.

After three years of research, three million miles of test-driving and outlays of more than $30 million, **International Harvester Corporation** is now in production of a completely new line of trucks. These newcomers vary in weight from 4,200 pounds to as much as 50,000 pounds, depending on classification, with horsepower ranging from 100 up to 162. All have the most up-to-date improvements in design and engineering, including prebonderizing on body parts to resist rust, before application of paints. Though the truck division of the auto industry is experiencing slackened demand and competition has become very acute, IHC is now strongly situated to capture its share of available markets.

Except for a few months prior to World War II, "liqueur quality" whiskies have not been available on a countrywide scale since 1919, but the picture has changed recently. **Schenley Distributors, Inc.** is now shipping to all leading markets limited quantities of Old Schenley eight-year-old bonded bourbon, the maximum time practical for aging American whiskies. The company claims to be the only one with sufficient supplies of liquor this old to market in all areas. According to this same source, the demand for straight whiskies at the expense of blends is steadily rising, with a prospect that "straights" will account for about a third of total whiskey sales within the next few months.

After 49 years of automobile manufacture, the motors division of **Nash-Kelvinator Corporation** has revived the name of one of its earliest models for its new "Rambler" car. Priced below the lowest of today's 5-passenger convertibles, this completely new car will compete in the lowest priced automobile field, although included at no extra cost are such custom appointments as an electrically operated top, a conditioned air heater, foam cushions, direction signals and other special features. The new car makes up to 30 miles per gallon, it is claimed. The company's first Rambler was offered to the public back in 1902.

The Government's largest chemical rubber-producing plant at Port Neches, Texas, operated by **B. F. Goodrich Chemical Company**, is having its output boosted to 85% of capacity of that portion of the plant not set aside on a stand-by basis. Total capacity of the huge plant is around 120,000 tons annually, but half of it is in "stand-by." Early this year output was at a rate of about 65% of capacity; the latest boost reflects the increasing demand for the new, longer-wearing "cold rubber."

The **American Telephone and Telegraph Company** in the current year has equipped still another important ocean liner with continuous telephone service, in this instance the "Gripsholm," Virtually anywhere on the seven seas, passengers on this now luxurious steamship, launched in 1925 and famed for its service in the late war, can readily converse by radio-telephone with shore points. The transmitting and receiving facilities for contacting the Gripsholm are located at three points in New Jersey.

Westinghouse Electric Corporation has instituted some interesting new policies to help support the nation's railroads, increasingly exposed to severe competition from other forms of transportation. As the company last year spent more than $40 million to ship its goods around the country, it is in a favorable position to lend substantial aid to the hard pressed roads. The program plans to ship goods by rail rather than by truck wherever rates and services are comparable, in recognition that Government subsidies of many kinds are giving the truckers unfair advantages. Among the latter are the use of highways without payment of adequate fees; also, truckers can pick and choose the most profitable freight by not operating as common carriers. Westinghouse has formed its new policies after an extensive study that indicated a choice between a universal and indispensable rail service and a restricted, specialized truck service which can ruin but never replace traffic by rail.

A unique approach to employee-investor relationships has been provided by **United Airlines** in a booklet specially written to inform its sizable personnel of its operating problems, earnings and capital needs. One section depicts two pay windows, one for employee payrolls and one for stockholder payrolls. The company points out that though the first window has always been kept open, the one for stockholders has been open only five times in the past 16 years. The suggestion was made that unless both windows were kept open, stockholders will quit and invest their money elsewhere, rather than continue to furnish for free the equipment that provides jobs and wages.

Faced with a net loss of more than $4 million on dining car operations last year, the **Pennsylvania Railroad** is making an all-out effort to overcome this handicap by improving the service in several ways. On some of the company's streamliners, passengers will soon be eating in 2-car diners, one devoted entirely to nice tables, with the other containing the necessarily hot and odorous kitchens together with sleeping quarters for the crews. Following a poll of patrons, the company has also established "pot luck" dining service on three important trains. Complete meals featuring but one entree are thus offered at prices 30% to 40% under regular dining service. Of 1200 passengers surveyed, 60% generally approved the new service, 30% were enthusiastic and only 8% demurred.

Sloane-Blabon Corporation, after months of research and testing, has rounded out its extensive line of floor tiling by introduction of some interesting rubber tiles. Marbleization extends through the entire thickness of these new tiles, which are highly resistant to indentation and have a high glossed surface. Selection may be made from 18 marbleized colors and one solid color. How complete the company's tile line has become is shown by offerings of Koroseal, asphalt, linoleum and Texfloor tiles, in addition to the new rubber products.

Socony-Vacuum Oil Company, Inc. has found a solution to a problem that has plagued the ceramics industry for many years — fully automatic pressing of floor and wall tile. By the use of a special Socony-Vacuum wax emulsion, it has become possible to turn out as many as 360 pieces per minute from a single press, an improvement certain to establish radically reduced production costs on these widely used ceramic tiles. The new development resulted from a research program conducted at Rutgers University under a three-year fellowship sponsored by Socony-Vacuum in the field of ceramics, and seems likely to pay off rather well.

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities* at reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

Southern California Edison Company

Will you kindly furnish statistics as to revenues of Southern California Edison, prospects and dividends.
P. D., Waco, Texas

Net income of Southern California Edison Company for 1949 increased $7,081,224 over 1948 and after all operating expenses, and taxes, and after payment of dividends on the preferred stocks, was equivalent to $2.99 per share for the common stock, compared with $1.83 per share in 1948.

The increase was attributable to continued growth in revenue and to substantially lower fuel costs and greater efficiencies. There were no frequency change charges in 1949 in contrast to the very heavy charges for that work in the preceding three years. Substantially all of the frequency change savings were, however, offset by large increases in taxes, maintenance, depreciation and other costs.

Gross revenue for 1949 amounted to $101,793,987, an increase of $4,199,813 or 4.3% over 1948. Operating expenses, including maintenance, fuel, purchased power, materials and supplies, and labor, were $45,768,695, an increase of $1,601,381 or 3.6% compared with like charges for 1948. Provision for federal income taxes were $8,700,000 an increase of $4,290,000 over 1948. Other taxes were $11,653,003, an increase of $1,418,830 over 1948.

The company expects that 1950 gross revenue will be slightly greater than in 1949. Operating expenses may be slightly less than in 1949, and in the absence of an unexpected rapid change in trend, net income for 1950 should closely approximate results for 1949.

The company's plant budget for new construction for 1950 totals $51,518,523, or $18,708,562 less than for 1949. This reflects a return to a more normal condition following four years of the largest construction program in the company's history. The 1950 construction program will require the securing of approximately $27 million of additional funds from outside sources.

Dividends in 1949 amounted to $1.75 per share and current quarterly rate is 50¢ per share.

National Gypsum Company

I have subscribed to your publication for a good many years and have found it very helpful. Would appreciate receiving data on National Gypsum Company; particularly interested in company's working capital position.
E. F., Omaha, Neb.

National Gypsum Company, leading producer of building materials, reported net sales of $59,439,883 for 1949. Compared with 1948 record high, this was a decline of $8,685,352 of which $1,300,000 resulted from reductions in prices.

Despite this loss in income, the company substantially increased its net worth and working capital and raised its annual dividend payments to $1.25 per share.

National Gypsum's net worth rose from $44,964,338 in 1948 to $48,100,466 last year and working capital was increased from $16,773,837 to $20,852,468. Earnings for the year totaled $5,836,707, or $2.57 per share of common stock. This compared with earnings of $7,997,976 or $3.60 per common share, in 1948.

Business activity in the building industry during 1949 declined considerably during the first half of the year but in mid-Summer, demand took a sharp upturn and companys' plant capacities were taxed throughout the last five months. The company anticipates an eventual tapering off to more normal building activity and has fortified its position with new products and additional selling power to assure further progress.

Sales of the company for the first two months of 1950 ran substantially ahead of the same period last year. Company has a fair backlog of business on its books and because of continued heavy activity in the building industry, it is believed that the present level of production at company's plants will be sustained throughout the first half of 1950.

National Supply Company

Please explain the reason for decline in income of National Supply Company last year and advise on prospects over coming months.
B. E., Laramie, Wyoming

Sales of National Supply Company for 1949 were $130,885,882, as compared with $160,100,318 in the previous year. Net income amounted to $5,660,591, off $6,566,771 from 1948.

In relation to sales, net income was 4.32%, or slightly lower than the average of the past ten years. Earnings per share on the common stock were $3.44—well above the past ten-year average. Book value per share of common stock was $36.69, an increase of $2.72 for the year.

Dividends of $1.60 per share on the common stock were paid

in 1949, compared with $1.40 per share in the previous year.

The decline in income last year was due to smaller demand for oil field equipment and supplies due to leveling off of domestic oil field activity. Wells now completed in the Middle-East can produce more oil than is presently required in Europe and Asia. Production in South America has been curtailed on account of the world competitive situation. Discovery of new oil fields in Canada during the past two years has raised the capacity of that country to produce petroleum far beyond their domestic requirements.

While National Supply does a substantial amount of business with foreign oil concerns, and American companies operating abroad, its activities are presently hampered by devaluation of foreign currencies and the lack of American dollars to pay for equipment.

The company's plants improvement program, begun promptly after the close of the war, is nearing completion. A total of $25,250,000 will have been expended on plant rehabilitation and modernization for new tools and equipment by the end of 1950.

A drop in sales in the fourth quarter of 1949 reflected loss of tubular production, idled by the steel strike. The strike closed company's pipe mills for eight weeks, beginning October 1st.

While supply of foreign and domestic oil in excess of present demand has had an adverse effect on oil field equipment and supply sales, general pipe sales should continue at present high levels through the Summer of 1950.

Avco Manufacturing Corporation

Please advise on principal fields Avco Manufacturing is engaged in, recent earnings and financial position.
E. F., Colorado Springs, Colo.

Consolidated net sales of Avco Manufacturing Corporation for the fiscal year ended November 30, 1949, amounted to $137,398,554, as compared with $140,515,462 for 1948.

Consolidated net income of the corporation for 1949 fiscal year amounted to $4,150,466, equal after preferred dividends to 54¢ a share on the common stock, as compared with $7,913,736, or $1.11 per common share in the 1948 fiscal year.

Earnings in 1949 were adversely affected by the slump in television and appliance sales during the Summer months, curtailment of production by early model changeovers of certain household appliances, and competitive price reductions.

During the 1949 fiscal year Avco launched a vigorous program designed to consolidate and further strengthen its position in radio and television, home appliances, farm equipment and broadcasting—the four principal fields in which the corporation is engaged in.

1949 fiscal year marked the completion of Avco's major postwar expansion and improvement program.

Net tangible assets of the corporation at the close of 1949 fiscal year have increased to $62,563,432, and this compares with $61,085,101 on November 30, 1948.

Dividends in 1949 totaled 30¢ per share. Consolidated net income for three months ended February 28, 1950, was 15 cents per share.

Rheem Manufacturing Company

I would appreciate information as to products manufactured by Rheem Manufacturing Company; also comments on recent operations and dividends.
J. C., Columbus, Ohio

Rheem Manufacturing Company manufactures various products made from sheet steel, such as electrically welded drums, barrels, tanks and pails, and a line of household and general utility products. The latter includes electric, coal- and oil-burning, and gas-fired automatic water heaters; floor furnaces and space heaters; automatic coal stokers and stoker-fired appliances; winter air-conditioners; and evaporative coolers and water softeners.

Company's earnings for 1949 were $2,625,862, equal after preferred dividends to $2.51 per common share. This compares with 1948 earnings of $3,162,903, or $3.04 per common share. Net sales in 1949 were $49,754,531, as compared with $58,744,097 in 1948.

Operating result for the second half of 1949, despite a moderate curtailment of production due to the steel strike, showed a marked improvement in sales and earnings over the first half of the year. Net sales for the second half of 1949 were $25,941,531, an increase of 9% over the $23,813,000 reported for the first half, while net earnings were $1,481,457, as against $1,144,405, or an increase of 29%.

From the standpoint of manufacturing, 1949 was noteworthy in that the program of "streamlining" begun the previous year, together with the continued installation of better equipment, paid off in higher efficiency and improved quality. The expense of closing the Birmingham plant and moving its production to the Chicago, Sparrows Point and Houston plants were absorbed in 1949.

Dividends in 1949 amounted to $1.60 per share and the current 40¢ quarterly rate is expected to continue.

Motorola, Inc.

Please report sales volume last year for Motorola and near-term prospects for the company.
T. B., New Rochelle, N.Y.

Consolidated net sales of Motorola, Inc. for the year ended December 31, 1949 totaled $81,803,357. Net earnings for the period totaled $5,280,196, equivalent to $6.60 per share.

Comparative figures for the year of 1948 are not available since all financial information for prior years was reported for the parent comapny, Motorola, Inc. alone.

It is difficult to forecast, with any degree of accuracy, sales volume for the full year inasmuch as the last quarter of 1949 accounted for approximately 45% of the entire year sales in television. The sales curve for the year 1950 will probably differ, with sales already at the beginning of 1950 at a much higher level than in the start of 1949.

Sales for the first quarter of 1950 will be substantially higher than the sales volume of $15,200,000 obtained during the corresponding period in 1949. According to present market indications, Motorola car radio sales should be substantially greater than last year. Reports from the field indicate that a much higher percentage of new cars are being delivered without radios, resulting in a greatly expanding "after market" demand.

Motorola's television sales have shown a tremendous increase in this quarter as compared with the first quarter of 1949. Capacity production will be far short of requirements and merchandise is expected to continue to be allocated for at least the near-term.

Dividends in 1949 amounted to 75¢ per common share and 75¢ was paid on January 16, 1950 and this included a 37½¢ special dividend. (*Please turn to page* 54)

New Potentials in Aircrafts?

(*Continued from page* 32)

to Boeing Airplane Company for establishing an outstanding gain in 1949 sales and earnings, and the momentum will likely extend into the current year. Volume soared to $287 million from $127 million in 1948, with net per share advancing to $4.08 from $1.59. It should be realized that in the two past years Boeing has had to charge off aggregate losses of about $15 million on unprofitable construction of Stratocruiser planes, an adverse factor that will no longer exist.

As the company started 1950 with huge backlog orders of $428 million, largely representing bombers and military transports, sales should continue at a high level and earnings may show considerable improvement. Orders for B-50s, B-54s and C-97s are sizeable and the company has been awarded substantial contracts for modifying some other planes about to be shipped overseas to Atlantic Pact countries. The Government plans, for example, to reactivate a number of B-29s, of which about 75 have already been earmarked for shipment abroad. Boeing stockholders should have confidence that total dividends in 1950 will at least match the $2 per share paid last year.

Curtiss-Wright Corp.

Curtiss - Wright Corporation presently is making no complete aircraft, but sales of engines, propellers and parts raised 1949 volume to $128 million. The company claims to have supplied over half of all domestic requirements for propellers and its Wright Aeronautical Corporation subsidiary sold more engines and parts last year than in 1948. Under new management, Curtiss-Wright is stressing engineering and research on an increased scale, 1949 expenses for these amounting to $12 million compared with $6.5 million in the previous year. During the first half of 1949, operations were in the red, but a reversal of the trend in the second half enabled the company to report final net of 12 cents a share compared with 46 cents in 1948.

Unfilled orders of $132.7 million at the start of 1950 enhanced the outlook but earnings seem likely to continue modest. In time, the new management may be able to utilize ample working capital of $92.7 million more profitably than in recent years but the outlook is obscure. Payment of dividends in 1948-49 out of accumulated earnings largely accounted for a decline of $25.2 million in net current assets during the period, a trend that cannot be extended indefinitely.

North American Aviation

The outlook of North American Aviation, Inc. is quite favorable. An order backlog of $228 million on September 30 has risen considerably further by the end of the year, at which time the company had negotiated or was negotiating new contracts involving about $105 million. Sales of airplanes and parts to the Air Force and Navy in 1949 accounted for 98% of the $124 million net volume. On this type of business the management displayed above-average efficiency in establishing an operating margin of 9.2%, as a result of which net earnings on increased sales rose to $2.13 per share from $1.97 in 1948.

The company, as others, has explained to stockholders how its earnings potentials are clouded by Government contracts that provide for retroactive price revisions either upward or downward. In its annual report, though, North American also points out that in the course of a decade it has paid a total of $34.3 million in dividends, the largest amount of any concern in the industry.

Grumman Aircraft Engineering Corporation enjoys an enviable position as the largest supplier of Navy planes, and seems likely to broaden its market with the Air Force. On sales of $59.9 million in 1949, a rise of 46% over the preceding year, earnings advanced to $3.19 per share from $2.39 in 1948. Since Grumman is now in quantity production of its efficient F9Fs and total unfilled orders of $135 million on December 31 represented more than two years' business, some further improvement in net would not surprise. While the company maintains no regular dividend rate, payment of $1 per share semi-annually appears dependable.

The improved outlook for the aircraft industry has heightened speculative interest in the shares since the start of 1950. The MWS index for the group reached a peak of 199.5 on March 4, a new high since 1946, but a week later receded to 190.9 under profit taking. The advance has been particularly notable because it started from a low base of 138.2 for 1949-50. The wide gain attests to the unusual volatility characteristic of aircraft shares. But despite their decidely speculative tinge, selected issues at this stage have a measure of attraction, based on potentialities for continued participation in military orders and the ability to translate such business into profits. Douglas, Grumman, Lockheed and Consolidated Vultee appear well situated in this respect, though the degree of risk naturally varies as explained in the foregoing.

Around the World

(*Continued from page* 35)

they used to get before the war. Higher prices of American imports since the September devaluation is still another contributing factor. The fact remains that the problem of checking inflation is real, and the sooner Australia does something about it the better. A compromise solution may be worked out—probably calling for an up-valuation of 10 to 12 per cent.

Dollar Loans to Franco

Economically, there has been no improvement in Franco's Spain where difficult conditions continue. In fact they have become so difficult that something had to be done about it, and quickly. Rebuffed by the western nations, Franco in his desperation had begun to flirt with the Kremlin — reportedly in an effort to negotiate a trade agreement that might help ease some of his troubles. Needless to say, the idea was utterly distasteful to the West. While they dislike Franco and his regime, they hate and distrust the Kremlin more. Besides, Spain is of certain strategic importance in the western anticommunist defense scheme; for this reason alone, any rapprochement between Franco and Stalin would be considerably less than welcome.

There is no love lost between

the two, to be sure, but both are realists. And most likely, Franco's moves were merely intended to goad the western nations into a more accommodating attitude. His efforts to obtain an Export-Import Bank loan had fallen through, allegedly purely on the ground that Spain had not proposed specific projects that the bank would consider sound business risks. But it is also known that there was a great deal of opposition to a Spanish loan for purely political reasons.

New York banks have now come to the rescue. Some time ago, the Chase National Bank loaned Spain $25 million, secured by gold, to be used for the purchase of agricultural machinery, fertilizer and foodstuffs, and this loan may be raised by another $5 million to buy wheat. More recently, the National City Bank of New York announced that it had lent Spain $20 million, also fully secured by gold. The State Department commented that it neither encouraged nor opposed the transaction, and that no attempt was made to intervene.

Obviously the idea is gaining ground that something must be done to help Spain, whether we like it or not. Certainly nothing can be gained by driving the country to desperate measures, or by letting conditions deteriorate to the detriment of European stability. Our guess is that more will be heard, and done, about this matter before long.

Investment Research in Drug Companies

(*Continued from page* 25)

from these products presumably will at least hold their own. Both dollar and unit sales of Vitamin_{12} and Animal Protein drugs, newly introduced products, were of record proportions.

It is interesting to note that as early as 1947, Merck began to produce antihistamine remedies, but has sold them for prescription use only. In the current year the company will start producing synthetic Vitamin A and foresees interesting potentials. Business of this manufacturer is on a worldwide scale and exports in 1949 accounted for about 25% of total volume. Since the end of the late war, Merck has spent about $25 million to enlarge plants and inventories, $15 million of the needed funds coming from retained earnings and the balance from sale of stock. An issue of $5 million $1\frac{3}{4}\%$ notes, due 1952, represents the only funded debt.

Producers of proprietary drugs and cosmetics are subject to much heavier competition than manufacturers of ethicals, besides being more sensitive to changes in economic conditions. On the other hand, when the popularity of one of these products has become firmly established, its manufacturer can count on relatively stable sales. But volume and earnings hinge importantly on promotional activities that involve large outlays and may or may not prove successful. Broad diversification and aggressive sales policies by a few large concerns have offset these adverse factors, resulting in stable dividends and marked growth.

American Home Products Corp.

The investment rating of American Home Products Corporation has progressively improved over a long period of years because of the foregoing factors. An unbroken dividend record since 1926 has engendered confidence in continued stability, while a 125% gain in earnings in the last decade has been attended by increased liberality to stockholders. The operations of this concern are considerably stabilized by the fact about 40% of its output consists of ethical drugs and the balance consists of packaged goods, baby foods, cake and biscuit mixes, floor waxes and many other items. In the course of 20 years, the company has consistently operated at a profit, even in 1932 earning $2.57 on shares outstanding at the year-end. American Home Products surmounted its postwar readjustment problems fully two years ago and its outlook for 1950 is very encouraging. The company's shares at a recent price of 33 yield 5.2%, based on 1949 dividends, thus providing a rather attractive income for an equity of this quality.

The experience of Rexall Drug, Inc. in 1949 presents a strong contrast with the generally satisfactory record of the industry, because operation of 345 chain drug stores far transcends in importance the company's manufacture of drugs. Consolidated sales dropped to $156 million in 1949 from $173.9 million in 1948. Closure of numerous unprofitable stores, lower sales and heavy overhead combined to adversely affect profit margins, resulting in a deficit of $1.25 million or 36 cents a share versus a profit of 40 cents a share in the preceding year. While a program now under way to open a number of modern stores and eliminate many marginal units may in time restore the company's earning power, the outlook remains obscure.

Generally speaking, sales of the drug industry should rise moderately in the current year despite the handicap of foreign currency devaluations which may tend to affect exports and make for increased competition in world markets, quite apart from lower income, in dollar terms, from foreign subsidiary operations of American concerns. These factors are offset by existing excellent demand potentials not only at home but abroad, by fairly stable cost factors, and above all by benefits of constant and extensive research activity with resultant new product development.

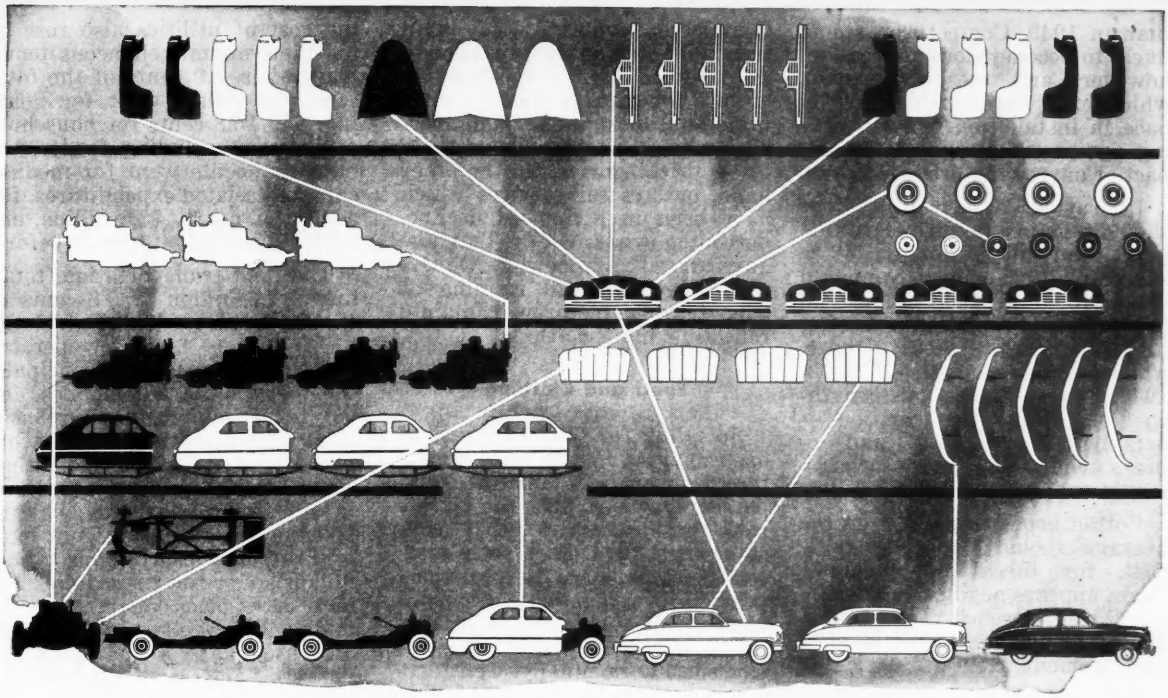
Hence the industry, in the past known for stability of income even in depressive years, also offers distinct growth characteristics which make for relatively high market appraisal of leading drug company shares. As the table shows, price-earnings ratios are considerably wider than those currently prevailing even for good grade industrial stocks, and yields rather more modest. Investors looking for dependable income plus appreciation potentials will find suitable media in selected drug shares, with Abbott Laboratories, Sharp & Dohme, Sterling Drug, American Home Products, Park Davis & Co., and Merck & Co. suitable even for conservative portfolios.

Another Let-Down in Textiles?

(*Continued from page* 29)

and commodity prices have shown indications of firming—the threat of inventory losses should be minimized.

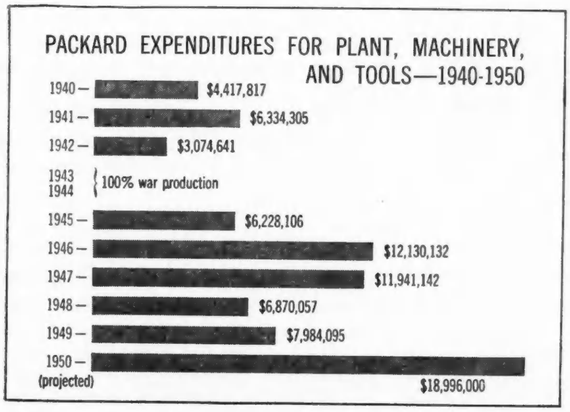
Unless by chance, general business should retreat to a greater extent late in the year than now is generally anticipated, typical textile companies appear in line for more satisfactory earnings



Meet a new kind of assembly line that works on 4 floors at once!

What you see above is Packard's multimillion-dollar answer to the postwar demand for more intensive use of existing manufacturing area.

Complicated? To production experts, it's a beautiful picture of smooth, efficient simplicity.



The cost of keeping ahead: The expenditures charted above reflect the rapidity, and the scope, of Packard's preparations for the return of keener competition. Sound, long-range reinvestment of earnings has kept Packard financially strong, and has provided the finest working facilities in Packard's entire 50-year history.

As you see in this schematic drawing, component parts move in with unhurried speed from the various departments of Packard's mile-long plants—and then converge, "escalator-style," at the final assembly line.

Teletype scheduling maintains smooth, split-second control of the entire operation.

The result is a steady flow of components without the usual "accordion-action" result of interfloor movement, and without long hauls of heavy materials.

And what's the pay-off, for the consumer, in this constant pioneering of new manufacturing techniques?

Answer: Today's precision-built, 135-HP Packard Eight is priced lower than many lighter-built, lower-powered eights . . . lower, even than some of the sixes!

PACKARD

ASK THE MAN WHO OWNS ONE

than in 1949. Competition seems likely to become more aggressive, however, and those companies which have been unable to keep pace in installation of labor-saving equipment may feel the impact of narrowing profit margins.

In rayon, American Viscose should turn in a better record this year than the estimated $8 a share for 1949, which compared with $13.65 in 1948. Industrial Rayon gives promise of bettering its 1949 record of $6.01 a share, which compared with $8.31 in 1948. Celanese also has strengthened its competitive position — notably in chemicals — and appears headed for a more satisfactory year.

Cotton goods producers on the average should fare reasonably well, for threat of inventory losses appears negligible. The efficient, well intrenched companies, at least, may be expected to show improvement over last year.

The outlook is less assured in woolen goods, where conditions seem unsettled by threat of competition from lightweight synthetics and consumer resistance to high woolen prices. Adverse trends in apparel lines, where margins have narrowed, present problems for integrated companies such as Bond Stores, Cluett Peabody, Goodall-Sanford, Munsingwear and Richman Bros.

Principal hosiery and underwear manufacturers seem well situated to experience satisfactory results this year unless unfavorable business conditions should undermine national income — which at the moment seems unlikely. Profit margins for companies like Burlington Mills, Pacific Mills, J. P. Stevens and United Merchants & Manufacturers should widen this year, but earnings comparable with exceptionally high 1948 totals scarcely seem likely.

Breaking Down the Consumer Dollar

(*Continued from page* 21)

rather than last year's pattern of public spending, the accompanying tabulation of personal consumption expenditures by type of product nevertheless presents a wealth of interesting information. This series of data, also compiled by the Department of Commerce, confirms the main trends pointed out before, namely a continued high percentage of outlays for durable goods, a drop in non-durables and a small overall decline in total expenditures for both categories. On the other hand, outlays for services which have been in a marked decline, percentagewise, since the Thirties, have turned up somewhat. Dollarwise, they are still running at more than double prewar, mainly reflecting higher prices.

Food and Clothing

Spending for food and tobacco has remained considerably higher than prewar ,both dollarwise and percentagewise, but the latter ratio has remained fairly constant since 1944. Food store sales rose further since the previous year, reflecting chiefly price trends, but the turnover of restaurants, hotels, bars, etc. advanced only nominally. Considering prevailing higher prices, this points to a net decline in their business.

Against total outlays of $65.2 billion for food (including $4.1 billion for tobacco), the public spent $23.8 billion for clothing, accessories, shoes, jewelry and for such services as laundering, dry cleaning, fur storage and repairs of various kinds. While this was $1.2 billion more than in 1947, the ratio to total consumption expenditures declined to 13.3% from 13.7% in the former year, again approaching pre-war relationships. During the war, in 1945, the ratio rose to as high as 16.4%.

Expenditures for personal care, totalling $2.3 billion or 1.3 cents of the consumer dollar spent, have remained fairly constant over the longer term on a percentage basis, though the dollar total is about double prewar, principally reflecting higher prices, excise taxes, etc. Outlays for housing, that is those connected with home ownership as well as rent payments, both dollarwise and percentagewise showed a moderate increase, the result of higher costs and rentals.

The cost of household operation advanced by $2.4 billion, but percentagewise only by 0.4%, the rise being mainly due to extensive buying of furniture, household appliances and other furnishings considerably stimulated by the building boom, but fuel costs and the cost of utilities also rose as did numerous miscellaneous items. Altogether, 8.9 cents of the total consumer dollar went for housing, and 13.8 cents for household operation (excluding food). Another 4.7 cents went for medical care and related expenditures, for a total of nearly $8.5 billion, one billion more than the year before.

The item transportation, totalling $17.6 billion or 9.8 cents of the consumer dollar, includes $14.1 billion for user-operated transportation, that is principally the operation of automobiles, and only $2.1 billion for purchased local transportation and $1.1 billion for inter-city transportation. The nation's transportation bill, in other words, exceeds that for housing by a considerable margin. It includes such items as $1.6 billion spent for tires, tubes and auto accessories, apart from the multi-billion dollar bill for new and used cars, $1.3 billion for garaging and servicing, and $4.1 billion spent for gasoline and oil.

Equally if not more impressive is the total of $10 billion spent for recreation — about 5½ cents of the consumer dollar, compared with 8.9 cents spent for housing and 13.3 cents expended for clothing, etc. The latter is exceeded by the total of transportation plus recreation, as simple addition will show, as is the amount spent for household operation. Either items compare with a relatively insignificant $1.1 billion spent for private education and research, amounting to less than one cent of the consumer dollar.

Our Recreation Bill

But considering the increased leisure time that has become a part of modern life, the size of the recreation bill is not too surprising. A break-down is highly interesting. The biggest item, $6.1 billion, went for informal recreation including reading matter ($1.9 billion), radios and phonographs ($1.8 billion), toys and sport supplies ($1 billion) and a host of other recreational items whereamong some $600 million for gardening. Movies alone took in some $1.4 billion but only $88 million were spent for legitimate theaters and opera, both items showing moderate declines from the preceding year. Altogether, some $1.8 billion was spent for admissions to "spectator amusements." Pari-mutuel net

receipts came to $224 million and $154 million went into "non-vending coin machines" (receipts minus pay-off), all of which adds up to a sizeable gambling bill. $126 million was spent in billiard parlors and bowling alleys.

These recreational items certainly loom large when compared with $1.1 billion spent for private education and research, $2.1 billion spent for doctors' care and $864 million representing the nation's dentist bill. By comparison also, consumers spent $1.4 billion for drugs, medicines and sundries while private hospital services took $1.56 billion of the consumers' money.

While shoppers in recent years have been breaking records, they have been spreading their money somewhat differently than pre-war, as consultation of the tabular material will show, and such shifts are forever occurring, whether from choice or necessity. Governing factors include not only the trend of personal incomes but the price-income disparity as it affects the various segments of the population, and the degree of personal security or caution which is always an important determinant of consumer spending. While the income trend leads in importance, the other two elements in the equation should never be underrated, for they can and will importantly determine not only overall spending, but the spending pattern.

The Bankruptcy of Our Farm Policy

(*Continued from page* 13)

historical process. Inefficient farmers are encouraged to stay in production while efficient farmers are handicapped by quotas. Price supports also encourage inefficiency and, of course, raise prices above economic levels. At the present time, all of the grains and cotton needed here and for export could be produced profitably by the more efficient section of our farmers at something like 50 to 60 percent of present prices. Think this over. It means that, in order to maintain a comparatively small minority of inefficient farms and farmers in operation, our national bill for farm products is hiked 80 to 100 percent.

Inefficient farmers who should have been moving off the farms into industry and trade have been subsidized to stay on the farms. This means fewer workers for industry, which the labor bosses welcome since it strengthens their monopoly. Meanwhile, the abnormally high levels of food prices are used by labor to force wages to uneconomic levels. It is a vicious sycle.

Years ago, someone in the Department of Agriculture made a time chart showing a close relationship between farm products prices and industrial activity. Ever since, it has been claimed that high farm prices are essential to industrial prosperity, and that prosperity of the entire country is dependent upon agriculture being prosperous. Such assumptions, in this highly industrialized country of ours, are perfectly ridiculous but these untruths still are uttered constantly without being challenged. Actually, as every student of economics knows, agricultural prosperity is dependent upon industrial prosperity.

Agriculture is entitled to prices for its crops that will enable it to produce, over a period of years, at a decent profit. The same can be said for any enterprise. Farmers, as a whole, are entitled to no larger share of the national income than they can honestly earn. Any attempt, such as the Brannan plan, to raise by Federal subsidies agriculture's share of the national income might seem to work for a year or two but inevitably the high costs would ultimately wreck our economy, and farmers with it.

Panaceas

For years, Congress has been adopting one panacea after another—at the expense of taxpayers and consumers — motivated primarily by political considerations. The main issue, i.e., farm overpopulation and farming on worn-out, inefficient land, has been carefully avoided. Billions of dollars have been spent in efforts to perpetuate these economic monstrosities, but little or nothing to alleviate this cancer on our economic system.

Only in a recognizably static economy is there any justification for attempting to keep unneeded farmers on the land. But, that is just what we have been doing with our farm policies for the last 15 years or more. We should have been encouraging inefficient farmers to get out of production, and we should have been encouraging taking poor land out of production. The true answer to our "farm problem" is as simple as that.

Need for Intermediate Assistance

Normally, there would be no justification for helping individual farmers to get out of farming into other occupations but our national policy has been just the reverse for so long that some intermediate assistance may be needed. Eventually, the farm program as it has been conceived will break down and have to be abandoned, and hence the less efficient farmers will be better off if they get out of farming while the getting is still good.

Poorer lands taken out of farming could be added to national forests or used for grazing.

While all this would cost money, it would be permanent solution. Now that farmers have been coddled for so many years, some of them could not stand up against the abandoning of all price support measures which would permit prices to fall to their true supply-demand levels. The great majority of farmers need no Federal assistance. While they have taken the handouts at considerable cost to their morale and independence, they would not be hurt more than temporarily by the end of all price support measures.

With the number of farmers and the number of acres in cultivation pared down to those actually needed through the only force that ever has been found to work, i.e. the effect of price as determined by supply and demand, problems of continuing surpluses of farm products would disappear. Occasionally, nature might be overgenerous but long before there ever were any Federal farm programs, farmers had found that the way to avoid the effects of overproduction in one year was simply to cut back the next. No national acreage and marketing quotas, administered by a central bureaucracy, were needed to accomplish this purpose. Price alone did it and it can do it again.

Those who may object to the use of Federal funds to take un-

needed farmers and farm lands out of production would do well to study where the present program has got us with no end of continuing surpluses in sight. At the present time, the Commodity Credit Corporation has an "investment" of around $4 billion in farm products now being price supported at high levels or taken over from farmers in previous price support programs. And, there is no way out. The borrowing power of CCC has just been increased by some $2 billion to enable it to support 1950 crops. Markets for these surpluses are virtually nonexistent. In fact, our price support measures tend to encourage competing foreign producers to increase production and take our remaining foreign outlets away from us.

CCC Holdings

As of January 31, CCC owned or had loans outstanding on 475 million bushels of wheat, valued at $1.012 million; on 627 million bushels of corn, valued at $880 million; on 101 million pounds of butter, valued at $62 million; on 6.5 million bales of cotton, valued at $1014 million; on 76 million pounds of dried eggs, valued at $98 million; and so on, including even turkeys, prunes, rosin and turpentine, tobacco, peas and beans. Storage costs alone were estimated at around $10 million monthly. While some of the farm products supported in current loan operations might move out into consumption, there is no possibility of finding markets for many of these commodities. Some of them we cannot even give away.

A Simple Solution

There is absolutely no way out of the dilemma so long as we continue to maintain price support programs. A year from now, the situation promises to be much worse than now. The commodity handling trades are slowly being forced out of business by Government operations. The entire marketing structure is in process of breaking down. Thus far, the cost to the taxpayers and the consuming public has run into incalculable billions of dollars. And, there is no end in sight. The best that the Fair Dealers can offer is more of the same at even higher cost to the taxpayers.

There is a solution to the farm problem and it is simple. But, it undoubtedly would take far more courage than the politicians of either party have showed. The cost of removing permanently from farming some 25 to 35 million acres of poor lands would be no more than we are spending annually, directly and indirectly, on our present ineffectual farm programs. In the past, USDA often payed more for "rental" to take land out of production for a single year than the land was worth.

Answers to Inquiries

(*Continued from page* 46)

RUBEROID COMPANY

"As an old subscriber to your valued publication, I would appreciate receiving information as to Ruberiod Company's recent operations, working capital position and prospects for 1950."
—D.L., Bangor, Maine

The Ruberoid Company, manufacturers of asphalt and asbestos building products, showed a net profit of $4,198,300, equivalent to $8.72 per share on the 481,334 shares outstanding on December 31, 1949. Net profit in 1948 amounted to $5,162,236, equivalent to $11.80 per share on the 437,586 shares outstanding at the close of that year.

Net sales in 1949 were $50,267,-987, compared with $57,477,023 in 1948. Current assets at the close of 1949 were 11.4 times current liabilities, and working capital was increased during the year to $17,-015,707 from $15,189,707.

Dividends paid in 1949 included cash payments amounting to $3.25 per share and a stock dividend of 10%, the same as paid the previous year. A dividend of 50 cents per share was paid in the first quarter of the current year.

For the purpose of increasing the efficiency of manufacturing operations, developing new and improved products and expanding production facilities, the company has continued its policy of reinvesting a substantial portion of its earnings in plant additions and replacements. During 1949 a total of $3,181,725 was appropriated for this purpose, compared with a depreciation charge of $1,144,377. Out of a total of $18,616,601 appropriated for capital improvements during the past ten years, approximately $3 million remained unexpended at the close of 1949.

According to recent estimates by the United States Department of Commerce and other authoritive sources, the total of new construction during 1950 is expected to be approximately the same as during 1949 which, on the whole, was a good year. In addition, statistics show that more than half of our entire output is currently used for repairs and maintenance of existing structures.

Prospects for the current year appear favorable.

CARRIER CORPORATION

"Please furnish pertinent data as to earnings of Carrier Corporation; order backlog and dividends."
—E.B., Dover, Delaware

Carrier Corporation, manufacturer of air conditioning, refrigeration and industrial heating equipment, reported net profit of $1,834,967 or $2.72 per common share for the fiscal year ended October 31, 1949. This compares with $2,710,412 or $4.19 per common share for fiscal 1948.

The corporation completed sales in the amount of $46,209,169, and booked $44,479,196 of new orders. The comparable figures for fiscal 1948 were $54,456,394 and $52,667,015.

Carrier's backlog of unfilled orders totalled $15,677,040 as of October 31, 1949, compared with $17,823,885 a year earlier, and consisted mainly of direct contracts with large users of their heavier types of equipment.

The corporation revealed plans recently for the construction early in 1950 of a new plant, adjoining the modern 13 acre manufacturing building acquired from the War Assets Administration in 1947. Carrier's older plants in Syracuse, which contained more than one million square feet of multi-story production space was sold late in 1949.

During fiscal 1949, the financial condition of Carrier was improved to a point beyond any previously enjoyed. Net working capital increased to $17,345,784 as of October 31, 1949. Cash and U. S. securities amounted to $6,146,711 as compared to $3,870,294 a year earlier. In addition, all income tax liabilities were fully funded with $1,312,000 of U. S. tax notes. And there were no short term borrowings.

The budget of the company for fiscal 1950 calls for a volume of business somewhat in excess of that completed in fiscal 1949, but that this program has already been interfered with to some extent by the coal and steel strikes.

The corporation is striving for a substantially greater business through its expanded distributor-dealer organization.

Consolidated sales for the 12 months ended January 31, 1950 amounted to $43,779,376 and net profit was $1,315,844, equal to $1.84 per common share. This compares with net sales of $53,159,620 for the 12 months ended January 31, 1949 and net profit of $2,347,896, equal to $3.58 per common share.

Dividends of $1.00 per share were paid in 1949 and 25 cents was paid in the first quarter of the current year.

Unfilled orders as of January 31, 1950 amounted to $20,680,150 and orders booked for the 12 months to January 31 totalled $45,335,558, compared with $50,670,071 booked as of January 31, 1949.

Capitalizing Corporate Growth Through Stock Splits

(*Continued from page* 15)

in the current year.

On appended tables we list a number of representative concerns that split their shares last year and others that have indicated intentions to do likewise in 1950. On the 1949 tally we show the effective dates, the basis of the splits and the market position of the shares recently, compared with that just prior to their split-up. The basis used for the 1950 group is necessarily different; to measure long term asset growth, we show net asset values for 1940 and 1949, and additionally net earnings per share in the last two years, 1949 dividend rates, price ranges and the basis of the proposed split.

In discussing the drug industry elsewhere in this issue of the Magazine, we have pointed out the remarkable growth of Abbott Laboratories and the sound reasons therefore. In consequence of increased stature and improved earnings, this concern has split its shares on three occasions since 1936, 3 for 1 in that year, 2 for 1 in 1946 and 2 for 1 last year. A single share of the stock purchased at an average cost of $128.50 in 1936 would now have been translated into 12 shares with a total value of $651 at their 1950 high, if held through the period. Furthermore, the holder would have received $21.60 as cash dividends last year. Since the effective date of last year's split, Abbott shares have risen 19%, closely comparable to the general advance in the market, thus indicating that a recent price of 47 is fairly conservative.

In sharp contrast, the price of Admiral Corporation shares has risen 80.8% since the shares were

split 2 for 1 on December 8, a gain partly stimulated by a sharp rise in annual earnings but more especially due to the glamorous outlook for the television industry which has precipitated considerable speculative activity in TV shares. The high percentage gain is interesting; if measured in dollars per share, the rise of about 12 points would not have seemed so sensational to the casual observer.

Fast Growth

An important thing to consider is that this vigorous competitor in the field of radio and television has grown so fast since 1943 that it has seemed advisable to recapitalize three times in seven years.

In this period, holdings of an investor would have increased from one share to 16 without any additional outlay on his part. Although a current price of 27⅛ for the shares may seem moderate outwardly, speculative enthusiasm has been rampant in television shares. In relation to earnings of $4.12 per share in 1949, the recent price appears reasonable. But a great deal hinges on whether the television industry is riding a wave that may subside sooner than many people expect, and how competitive influences meanwhile will affect the sales and earnings of the company.

Our table shows such broad variations in the price behavior of various split shares since their effective dates, that the circumstance suggests the need for individual studies. Very broadly, all the shares on our list have risen, but the rates reveal marked differences. The shares of duPont, in advancing 54.2% since the split last June, reflect the advantage of increased investor appeal through the reduced price level. Aside from this factor, of course, the company's earnings from chemical operations as well as from General Motors dividends reached record proportions last year and tended to restrict offerings of the stock in a period when thousands of prospective new stockholders were trying to acquire the shares. At around 68, duPont shares are selling on a basis of 17 times last year's earnings of $4.02 per share, but in view of the company's outstanding position, record, growth and long term prospects, current quotations do not seem unreasonable.

Lion Oil

Another instance where substantial growth has resulted in several split-ups that have proved beneficial to stockholders is Lion Oil Company. The shares of this petroleum operator were split 2 for 1 in 1947 and again on the same basis in 1949. Before the first split, the price ranged from 38¾ to 55½ and after both recapitalizations reached 31¾ at their 1950 high. Since the effective date of the 1949 split, the price has risen 42.7%; an investor who owned and held a single share in 1947 would now have four with a total value of $124 and currently would be happy in receiving $6 per share in dividends.

Turning to our other table, let's examine a few situations where split-ups undoubtedly will be approved by stockholders in the near term. At the outset it is interesting to note that of the eleven concerns on our list, only two are now selling above 100, with seven quoted in the 40s and 50s. The factor of high price, accordingly, could hardly account for most of these splits.

This circumstance, though, is partly explained because four of the companies are public utilities that are specially anxious to enlarge their list of local stockholders for political reasons, as well as to avoid possible criticism as to the rate of dividends per share. All of these public utilities are in a period of marked expansion and growth, and will likely desire to keep their capital structures in good balance by eventual sale of additional common stock, a move that would be facilitated by having their equities priced at a lower and more attractive level.

National Steel

Other motivations prompted the split-ups in some of the industrial shares. National Steel, for example, has just reported annual earnings of more than $16 per share for the second year in a row, following a steady uptrend all through postwar. In consequence, the company's shares are selling close to 110, a rather fancy price for most investors with so many other sound stocks quoted below 50. A post-split quotation of around 36 would undoubtedly appeal more to the investing public and serve to broaden the company's stockholder base as time passes.

Skelly Oil for several years past has plowed back a very large share of earnings for improvements and developments, as shown by an increase in the net asset value from $32.65 per share in 1940 to $113.50 in 1949. As a result of all these betterments, net earnings sharply rose and were reported at a peak of $29.79 per share in 1948, receding to $20.05 last year. Although the company for many years has been notably conservative in the payment of cash dividends, it has on a number of occasions subdivided its common shares and distributed dividends in stock. In the circumstances, the currently proposed split not only seems logical but considerably overdue, but the ratio of subdivision appears rather conservative.

General Fireproofing Company's intent to subdivide its shares is interesting to study, because no consideration of an unduly high price seemingly entered the decision. A recent price of 45 could hardly be termed excessive by any standard, and at their 1949-1950 low of 29¼, their appeal to price conscious investors was considerable. The fact is that over a long term of years, the growth record of this important manufacturer of metal office furniture, filing and

record containers has been notable, inducing recapitalizations on two previous occasions.

As far back as 1923 the shares were split 5 for 1 and only five years later on a basis of 4 for 1. The current proposal of a 2 for 1 split-up reflects a long period of marked growth during which the common shares did not change in number, though earnings have climbed irregularly from 38 cents per share in 1934 to a record peak of $11.57 last year.

The net asset value since 1940 has risen from $15.32 a share to $44.70 in 1949, a gain attended by a commensurate rise in earning power. Aside from these factors, the company recently retired the last of its outstanding preferred stock, leaving the modest number of about 323,000 common shares as its sole capitalization. It seems obvious that from many angles, the proposed 2 for 1 split is well justified.

Postwar conditions in the steel industry have enabled Wheeling Steel Corporation to report annual earnings ranging from a peak of $23.24 per share in 1948 to $10.68 in 1949, while in 1947 $17.27 was earned. In the last decade this producer of light steels has greatly expanded its facilities and integrated its operations, by this means enlarging its earnings base substantially. As our table shows, net assets per common share have risen from $42.32 per share in 1940 to $137.42 in 1949.

Granting that earnings in the last few years have been abnormally high and that in part this has been due to high leverage from sizable amounts of senior securities outstanding, the fact remains that 569,559 shares of common presently outstanding are very disproportionate to the company's established earning power and increased stature. A recent price of 51 for the equities rather liberally discounts potentially lower earnings and in itself would be nothing to stimulate a split-up.

On the other hand, it seems entirely logical that the number of shares should be substantially increased as proposed. If a price of around 26 prevailed following the subdivision and dividends were adjusted to $2 per share on the 1949 basis, there would be room for price improvement while, if leaner times arrived, the shares would be less likely to register sharp declines. In other words the split-up could have a stabilizing influence in some degree.

The proposed split-up by Minneapolis-Honeywell Regulator Co. was perhaps partly motivated by the advance of the share price into the low 70s, a level that might appear rather out of reach for many investors. A 2 for 1 split would lower the price to around 35 and carry more appeal. In the last 20 years, this concern has pushed its annual volume up more than tenfold, with an almost proportionate rise in earnings. In the course of this growth the common stock was split 3 for 1 in 1936 and again 2 for 1 in 1944. Thus after the now proposed subdivision, an earlier stockholder will have 12 shares versus 1 formerly, and on a basis of 1949 dividends should receive an annual income of $15.72. This sample shows pretty clearly how well a stockholder in a well managed, dynamic concern can benefit in the long run through receipt of occasional rewards in the form of split-ups.

A study of our tables should confirm many of the conclusions reached in our discussion. As pointed out, though, investors need exercise considerable discretion in selecting stocks that have been split or seem to be logical candidates. The test must largely disregard price factors and lean heavily on elements that reveal dynamic and well sustained growth of a company in the past and strong promise of future progress.

MODERN RADIO ADVERTISING

By Charles Hull Wolfe

Funk & Wagnalls $7.50

Packed with up to date facts, ideas and techniques, this new book has the practical, detailed information advertisers, admen, broadcasters and students want to know about: planning radio campaigns, buying radio time, writing radio commercials, and testing radio advertising for better results.

THE DECLINE AND FALL OF BRITISH CAPITALISM

By Keith Hutchison

This timely study of recent history is illuminating for the reader in three ways: it gives him perspective on the past, understanding of the present, and insight into the future. "No one," says Mr. Hutchison, "is likely to deny the decline of British capitalism in this century, but the suggestion that it has actually fallen may evoke protests from both left and right. Communists, of course, will reject it with scorn, and there are also sincere socialists who believe that the citadel of capitalism remains intact even if its outposts have been captured." He points also to "a dwindling but doughty band of right-wingers who, bloody but unbowed, insist that before long, when socialism has proved an abject failure, capitalism will enjoy a glorious revival."

Keith Hutchison believes, however, that the fall of capitalism in Britain is already a reality. He traces the development of the interwoven factors that prepared the way for the impressive changes in Britain's economic, political, and social structure. The story that he sets down so interestingly opens in the early eighteen-eighties and proceeds through six decades which, despite the lively pace of this historical narrative, were actually decades of slow retreat by the British ruling classes, a retreat which their generals conducted skillfully, with delaying actions, periods of truce, and even counter-offensives. But the retreat was in effect continuous, and this book reveals that most of the measures through which social change was wrought were written and steered through Parliament by ministers vehemently opposed to socialism. Such steps, the author says, are not readily reversed, and he reveals that ths sweeping electoral victory of the Labor Party in 1945 was thus only a quickened step along a path already familiar.

Charles Scribner's Sons $3.50

Market Reflects Growing Caution

(*Continued from page* 7)

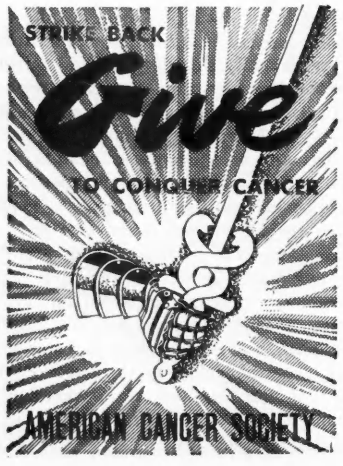
activity in durable goods, notably housing, automobiles and household appliances, remains abnormally great. It is also abnormal in capital goods, even though down from the peak.

Never forget that abnormality implies danger in due course, even if the time is not precisely foreseeable. There is probably too much complacency now about the business cycle. Too many people are thinking that Government action can and will prevent any serious deflation. It all depends on what you mean by "serious." Government action can prevent a protracted deflation like that of 1929-1933, by checking and reversing it in a matter of some months; but we are not now confronted with even potential risk of that kind of deflation. The question is whether the Government can prevent a fast, limited but painful relapse, something on the order of 1937-1938, in which production did have a very substantial year-to-year contraction, total corporate profits were almost cut in half, unemployment rose importantly, and the stock market fell almost 50%. The answer, on all the evidence to date, is in the negative. The Government simply cannot move fast enough on a big enough scale to "manage" the business cycle with much precision.

Maybe President Truman does not agree. He has been described as feeling very confident since the mild recession of the first half of 1949 was checked. But it was checked by a combination of forces, and not by the pushing of any one Federal button or series of buttons. Back in the "new era" of the 1920's, some people got the costly idea that the business cycle had been abolished for all practical purposes. In November of 1936 the late President Roosevelt said that economic conditions had been greatly improved and would continue to improve not by the mere turn of the cycle but "because we planned it that way." He said so as a cyclical revival, limited by New Deal handicaps, was entering its late and final phase.

However satisfactory the general business outlook may seem for some time to come, this postwar prosperity is neither permanent nor guaranteed for any specific duration. Those who forget these facts may pay dearly one of these days. There is no change in our conservative, selective policy.

—Monday, April 3.



How Strong Financially Is American Industry?

(*Continued from page* 10)

formation. For the most part it simply reflects genuine growth of the economy rather than inflation. The debt increase certainly is amply balanced by real growth in productive capacity, thus has an eminently sound foundation in the majority of cases. Increased earning power and low interest rates should keep the debt load quite comfortable.

The overall corporate picture, then, is one that points to relatively greater stability after the postwar boom than could be expected when it started. The boom, to be sure, is in its final stages but this suggests neither a bust nor a severe let-down, barring the unexpected. What's needed to preserve the fruits of management prudence during the boom period is modification of Government policies to the extent that they supplement rather than combat wise management policies. Only then can management achieve maximum results, of benefit to the worker, the stockholder and the nation alike.

A shaky business does not attract the equity investor, and an unprofitable business can not give increasing employment at good wages to its employees, nor can it help support the Government through taxes. But a soundly managed business can do all that, and consequently sound management should be encouraged rather than haunted and penalized. The problem is not to overhaul free enterprise, as some only too readily advocate, but to create new faith in the possibilities of a dynamic private economy.

Conservative management during the trying inflationary period has done much in that direction and its efforts should be applauded rather than belittled or condemned. Astute stockholders have been conscious of this. A distinct broadening of stock ownership is already under way. Leading corporations have more stockholders than ever before, and shareholders' lists are expanding rapidly. It is a trend that reflects not a revival of rampant speculation but recognition of values backed by sound assets and earning power and the promise of stable dividends, the fruits of management's determination and stability to safeguard the internal security of the business they direct, and thereby the best interests of the stockholder.

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BOOK REVIEWS

INTELLECTUAL CAPITALISM

By Johannes Alasco

Johannes Alasco is the pseudonym of a Polish political scientist who came to make his home in America during World War II. Mr. Alasco studied at the Institute of Political Studies at the Sorbonne, in Paris. He is well known as a writer in the land of his birth.

Mr. Alasco's present work is the first volume of a series, announced by World University Press under the general heading, "Towards a New Capitalistic Democracy." Mr. Alasco's "Intellectual Capitalism" presents the relationship of capitalism to democracy in a new light. Mr. Alasco foresees the rise of a new order which, although revolutionary in concept is, nevertheless, evolutionary in the sense that it is founded on the traditional elements of Western civilization: economic individualism, the profit motive, private ownership, and freedom of enterprise. This new order will, at the core, still be capitalistic, though externally it may appear to differ from classical capitalism.

Mr. Alasco, an intellectual, born and educated on a continent long dominated by the intellectual rather than the emotional view of civilization, has watched with interest the developing significance of the intellectual factors in American industry. Our folklore was, at the outset, more closely related to Paul Bunyan than to Adam Smith, but Mr. Alasco has noted the rise of economic intellectualism in America and related it to the changes which have taken place and still are taking place in capitalism.

The concept of Intellectual Capitalism itself is a product of the interaction of Mr. Alasco's personal intellectual tradition with the freshness and strength of the environment in which he has made his new home. It is the projection of European intellectualism upon the background of American capitalism but it is as readily applicable to modern Europe as to America.

Mr. Alasco's book is a masterpiece of economic writing, so simply presented that the business man with little or no knowledge of economic theory will be as interested and stimulated by it as will the economic specialist. Its appeal will not be limited to the economist and business man but should extend to everyone who wishes to understand his position in the changing world of today.

World University Press — $3.00

THE COST AND FINANCING OF SOCIAL SECURITY

By Lewis Meriam, Karl T. Schlotterbeck and Mildred Maroney

In recent years attention has been increasingly given to security of the individual — with the federal government providing protection against the unforeseen accidents and hazards of life.

The National Administration has advanced proposals for a great extension of the Social Security System. The proposals embrace the introduction of compulsory health insurance, inclusive of both permanent and temporary disability benefits in the Old-Age and Survivors Insurance System, an extension of coverage with an increase in the benefits of that program, and a broadening of federal participation in public assistance.

In the literature disseminated by the Administration the glowing accounts of the possible benefits have distracted the public mind. This book surveys the programs recommended, as well as those now existing; the benefits involved; and the rapidly growing burden of costs. The authors show how these proposed welfare plans would ultimately have to be paid for and analyze the insurance mechanism employed in supplying benefits for old-age, survivors, and disability.

The objective of the study is to focus attention on the magnitude of the expanding costs, and the problems involved in financing them, and to raise the question as to whether a safer and better system could readily be devised.

The Brookings Institution — $3.00

INVESTMENTS

By George W. Dowrie and Douglas R. Fuller

Dowrie and Fuller's *Investments* differs from other books on the subject primarily in the extent of its emphasis upon policy and in the practical approach which is taken to investment policy. This practical approach is strengthened by the use of examples that, instead of simply being highlighted, are worked out from beginning to end.

As in the previous edition, the authors continually strive to present a comprehensive picture of the subject—one that includes a study of the generally applicable principles and major problems that must be considered in instituting a wise investment policy.

John Wiley & Sons, Inc. — $5.00

THE AMERICAN COLLEGE DICTIONARY

This is the most complete, up-to-date desk dictionary in print today. It is the result of years of preparation during which more than 350 recognized authorities (list begins page xi) directly contributed the best of modern scholarship. Designed for the general reader, student and educator — for use wherever the English language is read or spoken — it is the most authoritative desk dictionary ever published.

Random House — $5.00

CASES IN CREDITS AND COLLECTIONS

By Beckman and Otteson

This distinctive new case book consists of an introduction and 60 cases taken from the files of credit departments and referees' offices, changed only enough to prevent identification, and edited and reorganized to enhance the value of the material.

The cases cover both consumer and mercantile credit, and are representative of various retail, wholesale, manufacturing, and financing business. Each case includes the decision reached by the credit manager and reasons for his decision. Questions are given at the end of each case.

Every effort has been made to secure and present actual, not synthetic cases, which are therefore typical and hence recurrent. The book is up to date, and the cases cover the subject up to the present time, including such developments as floor financing of inventories as well as financing of sales by dealers through finance companies. Bankruptcy procedure is dealt with more thoroughly than usual.

Although the treatment is eminently practical and realistic, the material is tied closely to principles.

McGraw-Hill — $4.50

PEACE BY INVESTMENT

By Benjamin A. Javits

Peace By Investment is the result of discussions the author had with his friend Charles E. Wilson while the latter was executive head of the War Production Board. In the conferences, the question constantly came up "What will happen after the war?" and the corollary question "How can the peace be won?" One answer, perhaps a guide to *the* answer, is found in this book whose main theme is that it takes as much money and effort to win peace as to win a war.

Barbara Ward of the London "Economist" says: "In my personal opinion, the subject matter of *Peace By Investment* is of vital importance and tackled both constructively and courageously."

Funk & Wagnalls — $3.50

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